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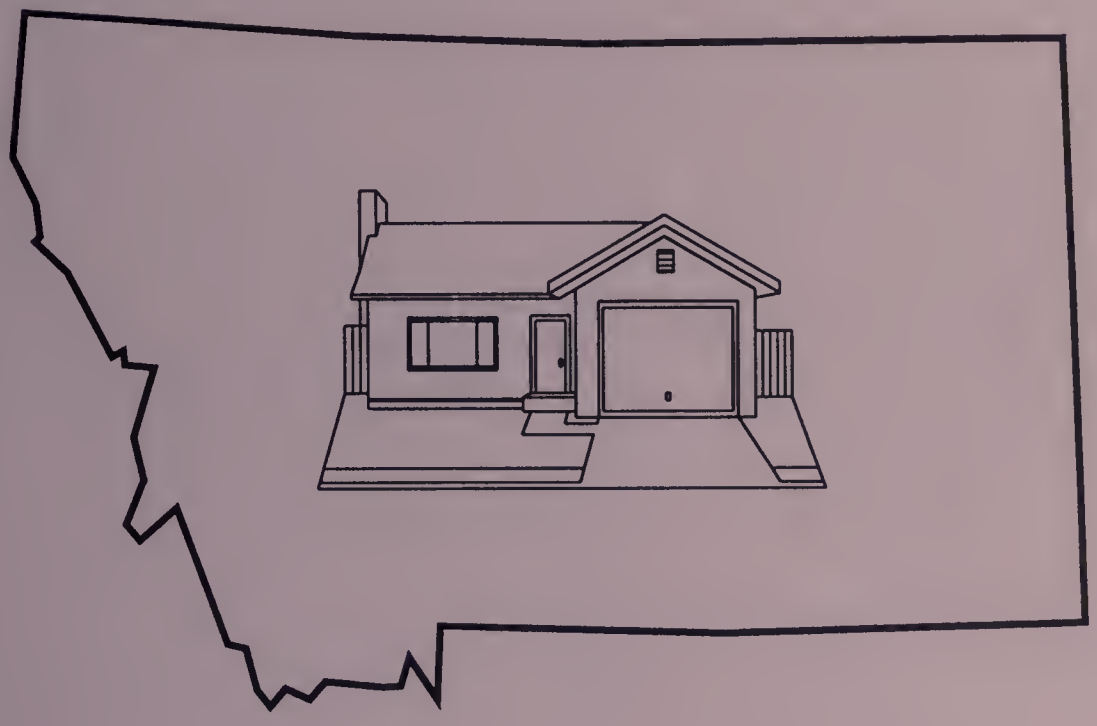
Montana Property Tax



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November, 1993

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State of Montana

Marc Racicot, Governor

Department of Revenue
Mick Robinson, Director

P.O. Box 202701
Helena, Montana 59620-2701

November 22, 1993

Members of the Fifty-Third Legislature
Persons Interested in Property Taxes

Many Legislators and property taxpayers have been contacting the Department for information on property taxes. People are trying to understand how the property tax system works and what caused the large property tax bills for many of Montana citizens. Questions arise about who is using all the property tax revenue and why is such a large property tax increase necessary?

There are many proposals to restructure the current property tax system due to the significant property tax increases this year. In evaluating what changes should be made, it is important for all of us to have a basic understanding of the current property tax structure, to understand what happened to property taxes this year, and to understand the legal parameters in which the property tax system operates.

Therefore, the Department has prepared this book to answer the questions being asked and to provide an analysis of the changes between fiscal 1993 and fiscal 1994 property taxes. I hope this material is useful to you in your deliberations regarding the property tax system and taxpayers expectations.

The task which lays ahead is challenging. If I or the Department staff can provide any assistance, please contact us.

Sincerely,

Mick Robinson
Director

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TAX ADVISORY COUNCIL FOR PROPERTY OWNERSHIP

State of Montana

Marc Racicot, Governor

Department of Revenue
Mick Robinson, Director

P.O. Box 202701
Helena, Montana 59620-2701

November 3, 1993

TO: Governor Marc Racicot

FROM: Mick Robinson, Council Facilitator
Tax Advisory Council for Property Ownership

SUBJECT: Committee Report and Recommendations

This Council was appointed in September 1993 to develop a Montana property tax system that allows Montana residents to remain in their homes and to own property without having the costs of ownership become prohibitive due to significantly increasing property tax bills. The Council found it encouraging that Montana's economy is showing signs of growth and some recovery in property values. One of the challenges of this growth is the uneven change in property values which makes individual taxpayer's situations vary considerably. The Council has considered these problems and finds that the current market value appraisal system should be maintained and that the tax year 1993 appraisal values are much more accurate than the previous values which were based on 1982 costs and in some counties given general sales assessment ratio adjustments.

The Council was also challenged by the Montana Constitution provision which requires the appraisal method to be generally and uniformly applied so that all similar properties will be valued in a like manner. Under the Constitution, the state is to appraise, assess and equalize the valuation of all property, and the taxing jurisdictions must use these equalized valuations. State law further strengthens the Constitution provisions by requiring equitable valuations for comparable types of property. In Montana, as decided in the 1990 case Montana Dept. of Revenue v. Barron, taxpayers are protected from having to bear a disproportionate share of Montana's tax burden due to application of nonuniform and inequitable appraisal and assessment.

The Council reached consensus and recommends:

FISCAL 1994 For fiscal 1994 the Council recommends an extension of time for people to apply for the existing low-income program.

FISCAL 1995, 1996, and 1997 For tax year 1994, fiscal 1995 tax bills, the Council recommends rolling the values back to 1992 and phasing in one third of the 1993 market value increase. For tax year 1995, two thirds of the market value increase will be phased in and for tax year 1996 100% of the value increase will be in effect. Market value decreases would continue to be implemented fully in each year. The Council also recommended increasing the income levels under the low-income exemption program so that more people will qualify.

LONG-TERM STRUCTURAL CHANGE For the tax year 1997 reappraisal, the Council recommends: a three year phase-in for reappraisal increases; a constitutional amendment to allow reappraisal increases in values to be capped at 4 percent a year; an acquisition value for property which is sold for the remainder of the reappraisal cycle; and a makeup tax, at the time of sale, for properties which had a cap on their reappraisal value.

This report gives a summary of: (1) the tax impact of reappraisal and mill levy changes for November 1993 and May 1994 tax bills; (2) current property tax relief programs; (3) the tax shift which occurs when market values are capped; (4) the Council's recommendations; (5) legal considerations; (6) administrative costs of the recommendations for the 1995 biennium; and (7) other ideas considered.

Fiscal 1994 Estimated Property Taxes

Class 4, residential and small local business, and class 11, farmsteads, have received a 13.3 percent statewide increase in property taxes. These two classes comprise 50 percent of the state's property tax base. The 13.3 percent statewide average does not reflect the significant variation in the property tax bills by county or by taxpayer.

Table 1 shows the percentage change in class 4 and 11 property value and average mill levy from fiscal 1993 to fiscal 1994, by county. The county average property tax increases range from a 44 percent increase in Granite County to a 16 percent decrease in Chouteau County. There are 24 counties with increases over 10 percent, and 5 counties with decreases in excess of 10 percent.

Table 1 also shows the portion of the estimated property tax increase due to reappraisal, and the portion due to mill levy changes. These impacts vary considerably by county. For example, Mineral County's 40 percent increase is due to a 26 percent increase in reappraisal values and an 11 percent increase in mill levies, while Glacier County's 35 percent increase is due to an 8 percent decrease in reappraisal values and a 57 percent increase in mill levies.

TABLE 1
Estimated Percent Change in Property Taxes for Residential Property
Fiscal 1993 to Fiscal 1994

County	Change in Residential Value Due to Reappraisal	Change in Average Mill Levy	Combined Impact to Residential Taxes
Granite	19%	21%	44%
Mineral	26%	11%	40%
Glacier	-8%	46%	35%
Jefferson	9%	19%	29%
Wibaux	3%	23%	27%
Broadwater	-13%	42%	24%
Lake	27%	-4%	22%
Beaverhead	16%	4%	21%
Sanders	15%	5%	20%
Richland	8%	11%	20%
Fallon	1%	17%	19%
Meagher	7%	8%	16%
Flathead	16%	-1%	15%
Stillwater	8%	6%	14%
Ravalli	9%	4%	14%
Deer Lodge	5%	8%	13%
Lewis And Clark	9%	4%	13%
Hill	2%	11%	13%
Lincoln	7%	6%	13%
Phillips	-1%	14%	13%
Missoula	5%	7%	12%
Powell	11%	1%	12%
Roosevelt	-7%	20%	11%
Custer	13%	-2%	11%
Yellowstone	8%	2%	10%
Gallatin	12%	-2%	9%
Park	2%	6%	8%
Silver Bow	15%	-6%	7%
Carbon	2%	5%	7%
Powder River	-8%	15%	6%
Valley	1%	4%	6%
Cascade	7%	-3%	4%
Madison	5%	-3%	2%
Treasure	-17%	22%	2%
Judith Basin	-14%	16%	0%
Blaine	0%	-1%	-1%
Toole	-10%	9%	-2%
Wheatland	-10%	9%	-2%
Fergus	-4%	2%	-2%
Sheridan	-11%	10%	-2%
Pondera	-14%	12%	-4%
Golden Valley	-10%	6%	-5%
Dawson	-11%	6%	-6%
Prairie	-19%	15%	-6%
Carter	-11%	5%	-7%
Mccone	-12%	5%	-7%
Petroleum	-1%	-7%	-8%
Sweet Grass	-21%	16%	-8%
Daniels	-16%	8%	-9%
Garfield	-7%	-3%	-10%
Teton	-17%	9%	-10%
Big Horn	-3%	-8%	-11%
Musselshell	-16%	5%	-11%
Rosebud	-15%	4%	-12%
Liberty	-25%	15%	-15%
Chouteau	-16%	1%	-16%
STATEWIDE	7.3%	5.6%	13.3%

Table 2 compares the estimated property taxes levied by government type and the percent of property taxes by each government type for fiscal 1993 and 1994. Property taxes collected in fiscal 1993 are estimated to be $589 million. In fiscal 1994 property taxes are estimated to be $654 million. This is an increase of $65 million or 11 percent between fiscal 1993 and fiscal 1994. Statewide taxable valuation increased 6.1 percent. In general, if the percent change in total taxes from fiscal 1993 to fiscal 1994 is less than 6.1 percent, then mill levies decreased. If the percent change is greater than 6.1 percent, then mill levies increased. On average, county and city mill levies decreased, but are still generating more revenue than fiscal 1993. State mill levies remained the same, generating an increase in property tax revenue proportional to the increase in total statewide taxable valuation. Local school property taxes increased approximately 23.3 percent. The Council recognizes that some school mill levies changed in response to HB 667, legislation equalizing school funding.

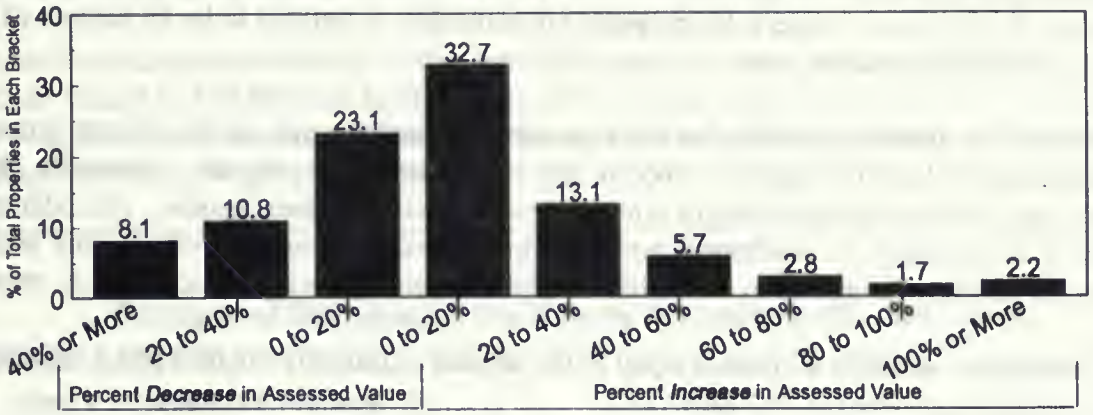
TABLE 2
Comparison of Estimated Property Taxes Levied
Fiscal 1993 to Fiscal 1994

	Fiscal 1993		*Fiscal 1994*		
	Total Taxes	Percent of Total	Total Taxes	Percent of Total	Percent Change From 93 to 94
County Government	116,516,936	19.8%	120,291,202	18.4%	3.2%
Cities/Towns	75,157,150	12.8%	78,677,925	12.0%	4.7%
Miscellaneous Districts	37,878,803	6.4%	40,183,250	6.1%	6.1%
State (101 mills)	165,502,051	28.1%	175,549,124	26.9%	6.1%
Local Schools	193,779,758	32.9%	238,990,948	36.6%	23.3%
Grand Total All Taxes	588,834,698		653,692,449		11.0%
	Fiscal 1993		*Fiscal 1994*		Percent Change
Statewide Taxable Value	1,632,622,989		1,731,947,504		6.1%

The statewide average increase of 11 percent in property tax does not illustrate what is happening to individual residential taxpayers. Graph 1 shows the distribution of residential property by the percent change in their appraisal value. As shown on the graph, 18.9 percent had **decreases** over 20 percent, 25.5 percent had **increases** greater than 20 percent, and twelve percent of residences had increases greater than 40 percent.

Graph 1

Impact of Reappraisal on Residential Property
Distribution of Households by Percent Change in Appraisal Value



Current Residential Property Tax Assistance Programs

The state has three residential property tax assistance programs: Low-income, Elderly Homeowner/Renter Circuit Breaker, and Reverse Annuity Mortgage Loan.

Low-income

If taxpayers have income below $13,361 for single people and $16,034 for married or head of household families, they are eligible for a reduction in their property tax. Table 3 shows the percent of property tax reduction available for each income level. To receive this reduction, taxpayers make an application by March 1 of the tax year. For property taxes due in fiscal 1994 (tax year 1993), the application deadline was March 1, 1993. About 9,500 households use this program each year.

TABLE 3
Percent Reduction of Property Tax Based on Income Level
Current Law Fiscal 1994 Income Schedules

Single Person			Married Couple			Percent Reduction
0	-	1,336	0	-	1,603	100%
1,337	-	2,672	1,605	-	3,207	90%
2,674	-	4,008	3,208	-	4,810	80%
4,010	-	5,345	4,811	-	6,413	70%
5,346	-	6,681	6,415	-	8,017	60%
6,682	-	8,017	8,018	-	9,620	50%
8,018	-	9,353	9,621	-	11,223	40%
9,354	-	10,689	11,225	-	12,827	30%
10,690	-	12,025	12,828	-	14,430	20%
12,026	-	13,361	14,431	-	16,034	10%

Elderly Homeowner/Renter Circuit Breaker

The elderly homeowner/renter circuit breaker provides tax relief to specific homeowners/renters 62 or older based on the relationship between the homeowner's property tax and income. In the case of renters, the property tax equivalent is defined to be 15 percent of the gross rent paid during the tax year.

Due to the inter-relationship between property tax and income levels, certain property owners (renters) will not be eligible to receive any benefit from this program. Generally, these are individuals whose property values or rents are low in relation to their income. To understand this fully, it is necessary to understand how the circuit breaker program works. This section discusses the credit as it applies to a homeowner, but the same principles also apply to renters.

The amount of credit allowed is equal to the amount of property tax paid less a deduction:

Credit = Property Tax Paid - Deduction

The amount of the deduction is equal to a specific percentage of "household income". These percentages are set in statute, and increase as household income increases in accordance with the following schedule:

TABLE 4
Schedule to Calculate the Elderly Homeowner/Renter Deduction

Household Income			Amount of Deduction
$0	-	999	$0
1,000	-	1,999	$0
2,000	-	2,999	the product of .006 times the household income
3,000	-	3,999	the product of .016 times the household income
4,000	-	4,999	the product of .024 times the household income
5,000	-	5,999	the product of .028 times the household income
6,000	-	6,999	the product of .032 times the household income
7,000	-	7,999	the product of .035 times the household income
8,000	-	8,999	the product of .039 times the household income
9,000	-	9,999	the product of .042 times the household income
10,000	-	10,999	the product of .045 times the household income
11,000	-	11,999	the product of .048 times the household income
$12,000	&	Over	the product of .050 times the household income

"Household income" as used in table 4 is equal to "gross household income" less $4,000 or 50% of retirement benefits, whichever is greater. Gross household income is all income of all individuals in the household, and includes federal adjusted gross income plus all nontaxable income as defined in statute. Also, in no case may the amount of the credit exceed $400.

A specific example should help clarify how this program works. Assume the taxpayer lives in a house valued at $60,000 and faces the statewide average mill levy of 365 mills. The taxpayer has $15,500 of total income. Based on these assumptions, this individual is entitled to a credit equal to $293.34, calculated in table 5:

TABLE 5
Example of Determining the Elderly Homeowner/Renter Credit

Step 1: Calulate the Property Tax	
Market value	$60,000
Taxable value rate	0.0386
Taxable Value	$2,316
Mill levy	0.365
Property Tax	**$845**

Step 2: Calculate the Deduction Amount	
Gross income	$15,500
Exclusion	($4,000)
Household income	$11,500
Deduction factor	0.048
Deduction	**$552**

Credit = ($845 - $552) = $293

Reverse Annuity Mortgage Loan

The Montana Board of Housing Reverse Annuity Mortgage Loan allows lower income elderly Montana citizens to convert the equity in their homes into an additional monthly income source. The taxpayer may receive a maximum loan up to 80 percent of the FHA estimated value of their home. The loan amounts may range from a minimum of $15,000 to a maximum of $40,000. The loan payments are made to the homeowner every month for ten years.

This program is for a homeowner who is 68 years or older with an income not exceeding $10,500 for one person and $13,800 for two people. Generally single-wide mobile homes are not considered eligible. The home must be clear of any mortgage or other type of lien.

The homeowner will continue to own the home; however, the Montana Board of Housing will have a lien in the form of a first mortgage. Generally, the loan will be repaid from the proceeds of the sale of the home upon the death of the last surviving borrower residing in the home or upon the permanent vacation of the home by the borrower(s). If the person continues to live in the home after the ten year payment period, the interest continues to accrue until the loan is paid.

At this time there are less than 15 households in the state participating in this program.

Tax Shifts due to Capping Market Values

Proposals that include a mechanism for capping the increases in market value provide direct relief to those owners of properties whose values are rapidly increasing. If government service and budget requirements do not decrease or increase, the reduction in tax bills of property owners whose values are capped must be shifted elsewhere unless all property values are changing equally.

Appendix A, Capping Market Values and Tax Shifting, discusses three possible outcomes of how taxes may be shifted within a taxing jurisdiction if a proposal to cap market values is implemented.

First, when all properties appreciate at the same exact rate, each property's liability also increases at the same exact rate, and there is no shifting of tax liability between homeowners.

Second, in situations where property values are increasing at varying rates above the cap limit, property tax burdens are shifted from property owners whose values are increasing faster to property owners who values are increasing slower.

Third, in situations where property values are both increasing and decreasing, implementing caps on market value shifts burdens away from property owners whose values are increasing to property owners whose values are decreasing.

Council Recommendations and Options

The Council found that the current method of reappraisal is sound. The concept of basing each property's taxable value on the value for which property will change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts, is the best approach. However, there are four factors which are converging during fiscal 1994 which will make the fiscal 1994 tax bills change significantly for taxpayers.

FIRST — The base value on each individual piece of property was established as of January 1, 1982. This is ten years between the new values under the 1993 reappraisal which had values based on January 1, 1992. The sales assessment ratio helped even out the average change by county, but not necessarily by individual taxpayer.

SECOND — The 1982 values relied heavily on the cost approach to valuation while the 1992 values were generally based on the market approach. This change in methodology will make changes for individual properties which will better reflect the market value in 1993.

THIRD House Bill 667, which changed the school foundation program in order to better equalize funding, changed school mills considerably from the prior year and among school districts. Statewide, local school property tax revenues increased 23 percent.

FOURTH Out of state people are buying property in Montana at prices considerably higher than the normal Montana buyers market. This is causing property values in areas deemed desirable by out-of-state people to increase much more rapidly than the state average.

With all of these events occurring at the same time, the majority of property taxpayers will see increased, some very significantly, tax bills. In fact, the increases are so numerous and large that we recommend: (1) the low-income program application be extended so more taxpayers can be made aware of the program and take advantage of this program for fiscal 1994 taxes; and (2) the reappraisal system be changed to limit valuation changes in the future.

Fiscal 1994: Extension of Low-Income Program Application Period

We recommend that the low-income application date be extended and an information program be implemented to allow everyone who is eligible to become aware of the program and have the opportunity to apply. If the participation rate increased from the current 24 percent of those eligible to 50 percent of those eligible, the increase in property tax relief would be $1.5 million.

Fiscal 1995-97: Expanded Low-Income; Roll-back and Phase-In of Appraisal Values.

We recommend changing the low-income program: (1) by increasing the income levels to $15,000 for single and $20,000 for head-of-household and married; and (2) by restructuring to four property tax reduction categories rather than the current ten categories. This will give a larger tax break to those who apply and make the tax reduction large enough to be meaningful. This would result in property tax reduction for these properties of $7,500,000 at a 50 percent participation rate. Table 6 shows the recommended income levels and tax reduction brackets for fiscal 1995.

TABLE 6
Percent Reduction of Property Tax Based on Income Level
Proposed Fiscal 1995 Income Schedules

Single Person			Married Couple			Percent Reduction
0	-	3,750	0	-	5,000	100%
3,751	-	7,500	5,001	-	10,000	75%
7,501	-	12,250	10,001	-	15,000	50%
12,251	-	15,000	15,001	-	20,000	25%

We recommend that any **increase** in appraised value from tax year 1992 to tax year 1993 be phased-in for the remainder of this reappraisal cycle. For fiscal 1995 tax bills, the value would be the tax year 1992 value plus one-third of the difference between the tax year 1992 and 1993 appraisal values. For fiscal 1996 tax bills, the value would be the tax year 1992 value plus two-thirds of the difference between the tax year 1992 and 1993 appraisal values. For fiscal 1997 tax bills, the value would be the tax year 1993 appraisal value. Appraisal decreases will not be phased in. The decreases in value are effective for 1993 and will continue until the next reappraisal. This phase in results in tax shifting among properties within class 4 and 11 and among classes of properties. Cities and counties may experience some tax loss due to I-105 restrictions. Schools and other taxing jurisdictions without I-105 limitations should not experience a tax loss.

Long-Term Structural Change - Effective January 1, 1997

We recommend that there continue to be market reappraisals. The three year cycle in current law should continue.

We recommend that the 1993 appraisal values be used in tax year 1996 and as the beginning base from which to measure change in the next reappraisal cycle.

We recommend that all market value decreases be implemented the first year.

We recommend that market value increases be phased-in over the three year reappraisal cycle.

We recommend that the market value increases phased-in each year be limited, "capped", at 4 percent.

We recommend that there be a 5 percent makeup tax on the sale of class 4 property which is "capped". The tax would be on the difference over $5,000 between the selling price and the property tax appraisal value in the year sold.

We recommend that when a "capped" property is bought during the reappraisal cycle, the sales price become the property tax appraised value for the remainder of the reappraisal cycle.

Council Statement

We feel the State is putting too much pressure on the property tax system through the state levies. The State should explore other revenue sources.

Legal Considerations

The Council discussed several possible remedies to alleviate the impact of increased market valuations on property taxation. Some of the remedies discussed included capping increases in market valuations by a maximum percentage and using differing combinations of the market value approach and acquisition cost for assessment of each property.

The Montana Constitution, as interpreted by the Montana Supreme Court, requires that the property valuation method for ad valorem taxation be uniform and equalize the valuation of all the property. Under these guidelines, remedies that include capping of increases or mixing valuation methods, would require a constitutional amendment to redefine the standards for uniformity and equalization.

The Council discussed whether the relief from increased market valuations should be retroactively applied. A retroactive application requires using prior appraisal cycle market values as its underpinning. Any remedy that proposes to use the previous appraisal cycle market values should be avoided. Because the previous market values were based upon 1982 values and adjusted by the sales assessment ratio studies, one of which was declared unconstitutional by the Montana Supreme Court, it is legally precarious to use these values as the foundation for any valuation relief, especially a retroactive remedy.

Modifications to the Low Income program could be statutorily effectuated without constitutional implications, provided the income standards for the Low Income program were not increased to levels that would no longer provide a rational basis for differing treatment between taxpayers.

Administrative Costs

Low-Income Reduction Program Extension

Extending the low-income application date and providing an information program to encourage everyone who is eligible to become aware of the program and have the opportunity to apply requires additional funding. Currently the Department processes approximately 10,000 low income applications each year. It is assumed that additional efforts to encourage use of the program in 1993 will double the use of the reduction program.

Annual Administrative Costs	$ 60,000

Market Value Increase Limitation

Limiting increases in market valuation as a result of reappraisal requires additional funding. Property owners receiving decreases in value would receive the entire decrease the first year. Property owners receiving increases in value would receive the increase limited to a certain percentage each year.

One Time Costs	$526,000
Annual Administrative Costs	$ 77,576

Ideas Considered but not Included in the Consensus Recommendations

The Council considered a wide range of ideas before finding consensus among the members on the final recommendations. The ideas considered, but not receiving consensus include:

- Local Option Taxes - Permitting local governments to impose new taxes in their jurisdiction with voter approval. The revenue would be used to reduce property taxes. A local option tax could be an expansion of the current resort tax.

- Circuit Breaker Expansion - Eliminating the existing age restriction--age 62 and older--for qualifying to receive a state funded rebate of property taxes. The Council considered a modification to the circuit breaker that limited property taxes to a percent of the owner's income.

- Acquisition Cost - Providing a property tax system for Montana based on acquisition cost. In this system, property values are based on the acquisition cost and value increases are limited to a fixed percentage. Also, value decreases are considered if requested by the property owner.

- Property Tax Deferral - Allowing owners to postpone the payment of tax until the property is sold. The unpaid tax would be a lien on the property.

- Reducing 1993 Property Taxes - Providing immediate relief from increased property taxes. A suggestion was to limit 1993 value increases to 15 percent and not let mill levies increase, but give local governments a choice of using their 1993 or 1992 levies. Second half tax payments could be adjusted and the state could reimburse local governments for any tax loss.

- Rollback Property Values To 1992 Levels - Freezing the property values to a level prior to the 1993 reappraisal for all residential and commercial properties. This would eliminate property value increases or decreases from reappraisal.

- Adjust The Statewide 101 Mill Levies - Reducing some or all of the impact of reappraisal by reducing the statewide mill levies.

- Adjust The Taxable Value Rate - Compensate for the 7 percent statewide increase in property values by reducing the current taxable value rate of 3.86 percent. This was done for previous reappraisals.

- Limit Tax Relief To Owner Occupied Residences - Providing property tax relief only to residential properties that are used by the owner as their primary residence.

COMPONENTS OF A PROPERTY TAX SYSTEM

COMPONENTS OF PROPERTY TAX SYSTEMS

Initial Value

1. Market Value
2. Selling Price
3. Reproductive Costs

Value Movement

1. Periodic Reappraisal
2. Phase-In Periodic Reappraisal
3. Sales/Assessment Ratios
4. Cap Reappraisal Value/Interim Adjustments
5. Capped Inflation Growth

Assessed (Taxable) Value

1. Uniform Assessment Percentage
2. Variable Assessment Percentages
3. Initial Value Equals Assessed Value

Tax Rate

1. Percentage of Assessed Value
2. Mill Levies

Property Tax Relief

COMPONENTS OF A PROPERTY TAX SYSTEM

Introduction

The property tax is the mainstay of local government, including school districts. The process of establishing the tax liability for each piece of property that satisfies the budgetary requirements of these taxing jurisdictions includes several steps. In this section we examine the various steps in this process, including an examination of how property is initially valued and how that value is allowed to change over time, what portion of that value is subject to tax, and how the tax liability is actually determined.

Because this section is concerned with how tax liability is determined for a given piece of property, we'll assume that the overall tax rate or mill levy necessary to satisfy the budgetary requirements of all taxing jurisdictions in which the property resides already has been determined. This section will not provide any discussion of the process that local taxing jurisdictions go through to determine the tax rate needed to meet their budgets.

General Discussion - How is Property Taxed?

In general, a piece of property is assigned an initial value, generally based on a statutorily defined *assessment standard, or **market value***. While virtually all states define these standards with terms such as "market value", "true value", "actual value", "fair cash value", "full value", "full cash value", "true money value", etc., the essence of the matter is to place a value on the property reflecting the value for which it would trade in an arm's-length market transaction. (Generally, a good measure of the market value of a piece of property is represented by the actual selling price arrived at in arm's-length transactions between knowledgable and willing buyers and sellers. Unfortunately, because most properties are not for sale, most of the time this value must be estimated for tax purposes.)

The ***assessed value*** (or taxable value) for tax purposes is then defined to be a specific percentage of the market value. In eighteen (18) states, the assessed value for tax purposes for all property in the state is 100 percent of market value. In ten (10) states, the assessed value of all property is a specific percentage (other than 100%) of market value. In the remaining states, the assessed value of property varies as a percentage of market value, depending on the particular class in which the property is classified. Montana falls into this category with assessed values ranging from 3.86 percent for residential properties, to 9 percent for most business equipment, to 100 percent of net proceeds for certain mines.

The ***tax liability*** for a specific piece of property is determined by applying a tax rate to the assessed value of the property. The tax rate may be expressed either as a percentage, or as a number of mills levied against the property, with 1 mill being equivalent to one thousandth of one dollar. In this regard, a tax rate expressed as 2 percent is equivalent to, and yields the same tax liability as, levying 20 mills on the property (20/1,000 = 0.02, or 2 percent).

Besides the notable exception discussed below, in essence there is only one manner in which the tax liability for a piece of property is determined in the property tax structures currently in use in the United States today. This is illustrated using the folowing two examples. The first example simply applies a tax rate directly to the market value of the property; whereas the second example applies a tax rate to the assessed value of the property, which is determined by applying a specific percentage to market value:

	Example 1	Example 2
Market Value	$1,000	$1,000
Assessment Rate	100%	50%
Assessed Value	$1,000	$500
Tax Rate	2% (or 20 mills)	4% (or 40 mills)
Tax Liability	$ 20.00	$ 20.00

(Note that in the above examples the same tax liability is achieved simply by adjusting the tax rate or number of mills levied. In this specific example, the taxable portion of the property is reduced by 50 percent in Method 2, but the same tax liability is provided by doubling the tax rate or the number of mills levied.)

The notable exception to the above approaches to taxing property is the system currently in use in California, which was adopted under Proposition 13 in June of 1978. Under this system, property is initially valued for tax purposes at its tax value in 1976, adjusted each year for inflation, but by no more than 2 percent, for properties that have not sold. When properties sell, the value for tax purposes is "acquisition cost", which is then adjusted each year thereafter by the smaller of the inflation rate or 2 percent. In addition, the tax liability is capped at 1 percent of tax value.

A similar system has been designed for implementation in Florida, and will become effective beginning in tax year 1995. In Florida, the taxable value of property will be allowed to grow annually at the rate of inflation or 3 percent, whichever is lower. Unlike California, however, there is no constitutional cap on the tax rate that can be applied to property.

The following sections discuss the components of each step involved in determining tax liability for a particular piece of property in greater detail.

Market Value - The Assessment Standard

Perhaps the most complicated aspect in the property tax setting process involves the initial valuation of property, and how that valuation changes (or does not change) over time.

Initial Value

Different means of establishing the property's initial value include: (1) market value, which is the standard used by most states in initially establishing a value for tax purposes, (2) "acquisition cost" or "selling price", which is used in California, and (3) "true tax value", which is actual reproduction costs adjusted for depreciation for improvements, and sales-oriented value for land.

Change in Value

There is a great deal of disparity among the states in how the initial valuation is allowed to change in subsequent years. Only 30 states and the District of Columbia statutorily require periodic reappraisal of property. Of thoses states requiring reappraisal, reappraisal cycles range from one to ten years, with most cycles six years or less. Five states require annual reappraisal of property. Assessing units in twenty five states where property is not reappraised annually adjust assessed values in intervening years. At least nine states prohibit the increase in valuation for a single piece of property to exceed certain specific limits or caps. Some states use a combination of periodic reappraisal, annual adjustment, and percentage increase limitations for both interim and reappraisal years. These combinations provide for many different ways that a state can adjust the value of property over time. The most common categories are discussed here.

Reappraisal Only. The first category is characterized by states such as Montana, where property is reappraised periodically by statute, with no interim adjustments to value, and with no limitation on the increase in appraised value at the end of the reappraisal cycle.

Phase-In Reappraisal Values. The second category includes states where property is reappraised periodically, and the new appraised value is phased-in in equal increments over the course of the next reappraisal cycle.

Sales/Assessment Ratios. Many states provide for interim adjustments through the use of annual sales/assessment ratio studies. In these states a sample of actual property sales is used to determine if, on average, the selling price of property is deviating significantly from the appraised value for tax purposes. In areas where the sales price/assessment value ratio is significantly different from unity, values for tax purposes are adjusted either up or down to more closely reflect actual current market conditions. This is by far the most common approach to making interim adjustments, with one-third of all states making interim adjustments using this approach.

A variation of this approach requires having an equal amount of property reappraised each year of the reappraisal cycle. For example, in a five-year reappraisal cycle one-fifth of all properties in each category of property is reappraised each year. The properties that are reappraised are then used to develop an index that in turn is used to adjust the values of the remaining 80 percent of all properties either up or down, depending on market conditions in the local taxing area.

Cap Value Changes. A fourth category includes states that place a cap on the increase in assessed value. The increase can apply only in the year of reappraisal, or in every year in those states that provide for interim adjustments. The size of the cap varies from state to state, with valuation increase caps varying from 2 percent to 25 percent.

Capped Inflation Growth. A fifth category includes states that have no formal reappraisal cycles. The current value for tax purposes simply grows by the lesser of inflation or a specified percentage each year. When a property sells the new value for tax purposes becomes the acquired cost of the property, which then grows at the applicable percentage rate each year thereafter, until it sells again. Property values may be decreased in certain circumstances (natural disaster, for example, or if market conditions warrant a decrease.

Assessed (Taxable) Value

Assessed value, which is often referred to as taxable value, is the portion of market value that is actually subject to the tax rate. As discussed earlier, there are really only two approaches currently in use (other than the California/Florida systems) in establishing assessed value.

Equal Assessment Percentage. In the first approach, all property subject to taxation is assessed at the same percentage of market value.

Variable Assessment Percentage. In the second approach, property is classified into separate and distinct classes with a different taxable valuation rate applicable within each class. Because these different types of property are often subject to the same tax rate or mill levy, this classsification scheme rests on the assumption that it is appropriate for different types of property to be subject to different effective tax rates. Hence, business equipment is generally taxed at a higher effective tax rate in Montana than is residential or commercial real property.

Initial Value Equals Assessed Value. In the third approach the assessed value is the same as the initial value used to determine liability.

Tax Liability

The amount of tax that is due and payable on a specific piece of property is determined by applying a tax rate to the taxable value of the property. The tax rate may be expressed either as a fixed percentage of the taxable value, or as a number of "mills" levied against the property.

PROPERTY TAX RELIEF SUMMARY

Property tax relief programs exist in almost all states in some form or another. They can be grouped into six different categories but within each category many design and implementation variations exist. Selection of one type of program over another, and within that type of program some particular design, is dependent on the reason for the relief, the targeted population, and the desired cost of the program. Therefore, this summary is limited to a description and scope of each type of program and does not include reasons for choosing one program over another.

Circuitbreakers

A circuitbreaker is a form of property tax relief where benefits depend on both income and property tax payments. It is usually funded by nonproperty tax revenue. There are two basic types of circuitbreakers, the threshold approach and the sliding-scale approach.

In the threshold approach, an acceptable tax burden is expressed as a percentage of household income. Tax above this level is considered excessive and qualifies for relief. The percentage can vary according to income level. Montana's homeowner/renter credit for the elderly is of the threshold type and the acceptable percentage varies with income.

The sliding scale approach rebates a fixed percentage of property tax paid within a given tax bracket. Often the percentage rebated goes down as income goes up.

Most programs are limited to the elderly, some are open to those with dependent children under 18 and others are open to all renters and or all homeowners. Circuitbreaker programs often have a renter equivalent with them.

In 1992 the District of Columbia and 35 states had circuitbreakers programs in effect in some form or another. The average benefit range from $49 in Hawaii to $560 in Oregon. Montana's was $237. Income ceilings vary from a low of $5,000 in West Virginia to none in Montana.

Homestead Exemptions and Credits

Homestead exemptions generally provide for an exemption of a specified amount of assessed value from the tax base. They are usually locally financed. Homestead credits are subtracted from the tax bill rather than the value of the home, but often pertain only to a certain portion of the assessed value of the home. They are often financed by the state. Homestead exemptions and credits differ from circuit breakers in that they rarely benefit renters and while low income may be a criteria for eligibility there is usually no formula making the benefit depend on income level.

Forty-four states and the District of Columbia had homestead exemption and/or credit programs in effect in 1992. All homeowners were eligible to participate in seventeen states and the District of Columbia. In the other states eligibility was limited in some combination to the elderly, disabled, low income, and widows and widowers. The exemption maximum is most often expressed as a dollar amount of assessed value.

Montana's exemption program is slightly atypical in that it is open only to low income and provides for varying levels of exemption value dependent on both the market value of the home and the household income. The maximum market value for exemption is $80,000. There is also a program for disabled veterans who meet an income criteria. There is no limit on the market value for those properties qualifying the disabled veterans program and the exemption is for the full market value of the home.

Tax Deferral

Tax deferral programs are those in which all or part of the property tax is deferred until the home is sold or the owner dies. In some states there is a temporary deferral of tax where payment is deferred until some later specified date. Some states have income ceilings for this program which are usually above the poverty level, others have no ceilings set.

Tax Freeze

Property tax freeze programs most often freeze the property tax when a participant reaches a given age. The program might just freeze a part of the tax, school property taxes for instance or the whole tax. Some programs are limited only to low-income individuals and are not common.

Subsidized Loans

A subsidized loan program provides low interest loans to help participants pay their property taxes. These programs are rare.

Rehabilitation Exemptions

A rehabilitation program exempts from taxation increases in assessed value due to home repair or rehabilitation. These programs are generally set up to improve deteriorating neighborhoods or restore historic ones. Some are limited to the elderly and low income, especially those related to home repair.

MONTANA LEGAL CONSIDERATIONS

Section 3. Property tax administration. The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

Section 4. Equal valuation. All taxing jurisdictions shall use the assessed valuation of property established by the state.

Section 5. Property tax exemptions. (1) The legislature may exempt from taxation:

(a) Property of the United States, the state, counties, cities, towns, school districts, municipal corporations, and public libraries, but any private interest in such property may be taxed separately.

(b) Institutions of purely public charity, hospitals and places of burial not used or held for private or corporate profit, places for actual religious worship, and property used exclusively for educational purposes.

(c) Any other classes of property.

(2) The legislature may authorize creation of special improvement districts for capital improvements and the maintenance thereof. It may authorize the assessment of charges for such improvements and maintenance against tax exempt property directly benefitted thereby.

15-8-111. Assessment -- market value standard -- exceptions. (1) All taxable property must be assessed at 100% of its market value except as otherwise provided.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.

(c) Except as provided in subsection (3), the market value of all motor trucks; agricultural tools, implements, and machinery; and vehicles of all kinds, including but not limited to boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The department of revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.

(3) The department of revenue or its agents may not adopt a lower or different standard of value from market value in making the official assessment and appraisal of the value of property, except:

(a) the wholesale value for agricultural implements and machinery is the loan value as shown in the Official Guide, Tractor and Farm Equipment, published by the national farm and power equipment dealers association, St. Louis, Missouri;

(b) for agricultural implements and machinery not listed in the official guide, the department shall prepare a supplemental manual where the values reflect the same depreciation as those found in the official guide; and

(c) as otherwise authorized in Title 15 and Title 61.

(4) For purposes of taxation, assessed value is the same as appraised value.

(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.

(6) The assessed value of properties in 15-6-131 through 15-6-133 is as follows:

(a) Properties in 15-6-131, under class one, are assessed at 100% of the annual net proceeds after deducting the expenses specified and allowed by 15-23-503 or, if applicable, as provided in 15-23-515 or 15-23-516.

(b) Properties in 15-6-132, under class two, are assessed at 100% of the annual gross proceeds.

(c) Properties in 15-6-133, under class three, are assessed at 100% of the productive capacity of the lands when valued for agricultural purposes. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

(d) Beginning January 1, 1990, and ending December 31, 1993, properties in 15-6-143, under class ten, are assessed at 100% of the combined appraised value of the standing timber and grazing productivity of the land when valued as timberland.

(e) Beginning January 1, 1994, properties in 15-6-143, under class ten, are assessed at 100% of the forest productivity value of the land when valued as forest land.

(7) Land and the improvements thereon are separately assessed when any of the following conditions occur:

(a) ownership of the improvements is different from ownership of the land;

(b) the taxpayer makes a written request; or

(c) the land is outside an incorporated city or town.

LEGAL CONSIDERATIONS

The purpose of this discussion is to highlight significant legal standards that must be satisfied if Montana's ad valorem property tax is changed to ameliorate escalating property taxes caused by increasing property valuations. The most important standard is the equalization requirement of Art. VIII, section 3 of the Montana Constitution.

In Montana Dept. of Revenue v. Barron, 245 Mont. 100, 799 P.2d 533 (1990) the Montana Supreme Court struck down a method of valuation which applied a percentage adjustment to all property within an area. They held that the constitutional requirement to equalize values was violated by the percentage adjustment because all similar properties were not valued in a like manner.

The three most important lessons from this case are:

1. All similar property must be valued in the same manner. In other words, we can not mix different methods and still have "equalization" as required by the constitution.

2. The old appraisal values are no longer "equalized" and the court has already told us so.

3. Any valuation method other than "market value" is suspect and may be contrary to the Montana Constituion as presently written.

A system which combines market values with values determined under a different system is subject to challenge under the court's reasoning in Barron. The reason it is subject to challenge is simply that vaules can not possibly be "equalized" if the values are not set based on the same method. The court came to this result in Dept of Revenue v. State Tax Appeal Board (1980), 188 Mont. 244, 613 P.2d 691. In this case, although the same valuation method was used, different appraisal manuals were used to reach the value. The court held that the use of different manuals violated the constitution.

The values which were set in the 1986 reappraisal (based on 1982 market values) are outdated. The sales/assessment ratio studies that were performed in order to determine the appropriate percentage adjustment demonstrated a problem with the 1986 reappraisal values. The values no longer represent market value in many instances; and therefore, are not "equalized". The Montana Supreme Court recognized the problem and was critical of the length of time between appraisals in it's Barron decision.

It is clear that new reappraised values are important to meet the constitutional requirement of equalization. Abandoning the 1993 values, which are at market value and therefore "equalized", in favor of the old values, would violate the Montana constitution.

Any system for valuing property which does not use current market value may also violate the Montana Constitution. Currently, agricultural and timber land is valued based on productivity, but it can be argued that this is just another method for determining a market value. If a diffent methodology, not intended to reach market value is used, the court may find that values have not been equalized.

Another issue which may arise is the residence of the owners of Montana property and whether it can properly be considered in any new tax plan. . A state may discriminate between residents and nonresidents so long as there is a rational basis. However, there does not appear to be a rational basis when the discrimination is based upon residency being fixed as of a specific time. On the other hand, it appears that a durational residency requirement may pass the rational basis test.

The United Supreme Court has addressed the issue of a state discriminating between residents and nonresidents, when the residency was permanently determined as of a fixed date. In Zoel v. Williams, 457 U.S. 55, 72 L.Ed.2d 672 (1982), and Hopper v. Bernalillo County Assessor, 472 U.S. 612, 86 L.Ed.2d 487 (1985), the Court held that a state violates Equal Protection if there is no rational basis for discriminating between persons who acquired residency as of a fixed time and those who did not. The Court noted that in earlier decisions it had held that Equal Protection did not prohibit a state from requiring durational residency as a requisite for certain state benefits. In both Zoel and Hopper the Court found there was no rational basis to grant benefits on certain residents as of a fixed date and deny those benefits to latter residents.

As stated above, the Montana constitution may prevent Montana form enacting a method of valuing property other than the market value method. However, the Montana Constitution can be amended to provide for a different method. California taxpayers, faced with a similar problem in the late seventies, adopted by initiative a constitutional amendment referred to as Proposition 13. Among other things, it changed California's appraisal method from one based upon current value to an acquired cost basis.

Proposition 13 was challenged by a resident taxpayer who had moved to California and purchased her home after 1978. The United States Supreme Court in Nordlinger v. Hahn, 505 U.S.____, 120 L.Ed.2d 1, 112 S.Ct.____(1992) held that Proposition 13 was not unconstitutional as being in violation of the Equal Protection Clause of the Fourteenth Amendment to the U. S. Constitution. Recognizing that states have a wide latitude in developing their respective tax policies, the Court held that Equal Protection is satisfied so long as there is a plausible policy reason for the discrimination. In Nordlinger, the discrimination was between taxpayers owning real property prior to 1978 and those owning after 1978. Such discrimination was held to be permissible since the state has a reasonable basis for making the classification. Rational basis is met if the classifications created are not arbitrary or irrational.

MONTANA

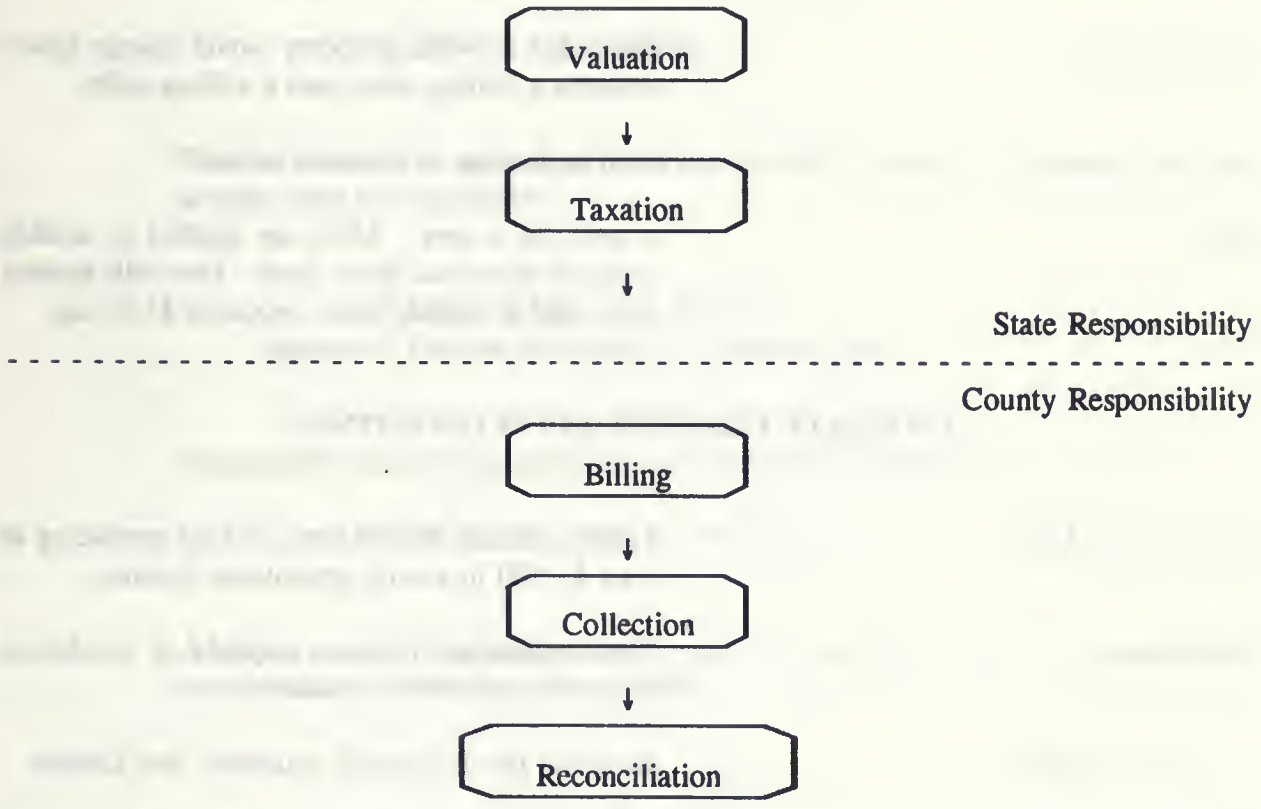
BASIC

PROPERTY TAX

PROPERTY ASSESSMENT

The Property Assessment Division is responsible for the appraisal, assessment, and equalization of the value of all property in the state for the purpose of taxation.

The various functions required to accomplish property taxation are identified below. The valuation and taxation functions are currently the responsibility of the state. The tax billing, collection and reconciliation functions are a county responsibility.



To accomplish the state responsibility, the Property Assessment Division is organized into 3 Bureaus.

- Centralized Assessment Bureau (12.70 FTE)
- Management Services Bureau (12.20 FTE)
- Appraisal/Assessment Bureau
  - County Appraisal Staff (192.23 FTE)
  - County Assessment Staff (164.90 FTE)
  - Field Support Staff (16.53 FTE)

A Division Administrator supervises the overall work of these Bureaus. There are 398.56 Division full-time equivalent (FTE) employees dedicated to that work. Field offices are located in all 56 Montana counties. The fiscal year 1994 (FY'94) budget for the Division is $12,896,152.

RESIDENTIAL AND COMMERCIAL REAL PROPERTY TAX DEFINITIONS

Appraised/Assessed Value	A value determined by the Department of Revenue for use in computing local government taxes. Under 15-8-111, MCA, (except for a few noted exceptions) all taxable property must be assessed at 100% of its market value.
Market Value	The value at which property would change hands between a willing buyer and a willing seller.
Taxable Value	3.86 percentage of assessed value.
Mill	A tenth of a cent. Mills are applied to taxable value to determine taxes owed. One mill applied to $1,000 of taxable value produces $1 in tax.

PROPERTY CLASSIFICATION GROUPINGS

Agricultural Land	Land in excess of 160 acres or land producing at least $1,500 in annual agricultural income.
Timberland	Land exceeding 15 acres capable of producing timber in commercial quantities.
Centrally Assessed	Basically public utilities, railroads, and airlines.
Personal Property	All property not considered real estate or improvements.
Commercial - Real	Land and improvements owned by a business and/or used in certain income producing activities.
Residential - Real	Land and improvements other than commercial land and improvements. This primarily includes property used as residences.

PROPERTY TAXATION

All taxable property must be assessed at 100% of its market value except as otherwise provided (15-8-111, MCA).

Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

$75,000 = Market Value

The market value is multiplied times the statutory taxable percentage to get the taxable value of the property.

$75,000 X 3.86% = $2,895
Market X Taxable percentage = Taxable Value

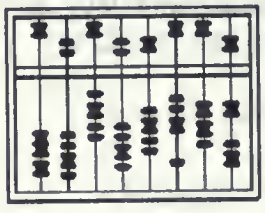
The taxable value is multiplied times the mill levy of the district to get taxes.

$2,895 X 250 mills = $723.75

A mill is a tenth of a cent, so a levy of 250 translates to $250 per $1,000 of taxable value ($1,000 X .250 = $250).

$75,000 = Market Value

$75,000 x 3.86% = $2,895
Market Value x Tax Rate = Taxable Value



$2,895 x .250 = $723.75
Taxable Value x Mill Levy = Taxes

TAXABLE VALUE AND ESTIMATED TAXES LEVIED BY PROPERTY CLASS - FISCAL YEAR 1994

Class	Description	Taxable Value	Estimated Taxes Levied
1	Net Proceeds	5,366,912	1,534,097
2	Gross Proceeds	10,559,998	3,606,160
3	Ag Land	141,808,953	44,156,272
4	Class 4		
	Residential	521,850,219	200,458,876
	Commercial	215,535,201	87,581,550
	SID's (Special Improvement Districts)		28,603,213
	Subtotal Class 4		316,643,639
5	Co-ops, Poll. Control	26,951,498	6,659,837
6	Livestock	28,579,729	8,828,326
7	Independent Telephone	990,534	326,500
8	Business Equipment	241,338,828	80,904,608
9	Utilities	413,946,032	113,244,518
10	Timber Land	6,410,390	2,099,608
11	Farmsteads	59,794,266	18,996,388
12	Railroads and Airlines	58,814,944	19,126,362
	Total	1,731,947,504	616,126,315
	Taxes Paid to Miscellaneous Districts		44,588,355
	Grand Total of Property Taxes Paid For All Purposes		660,714,670

Percent of Total Property Taxes Paid by Class 4 and Class 11 Property

(316,643,639+18,996,388) / 660,714,670 = 51%

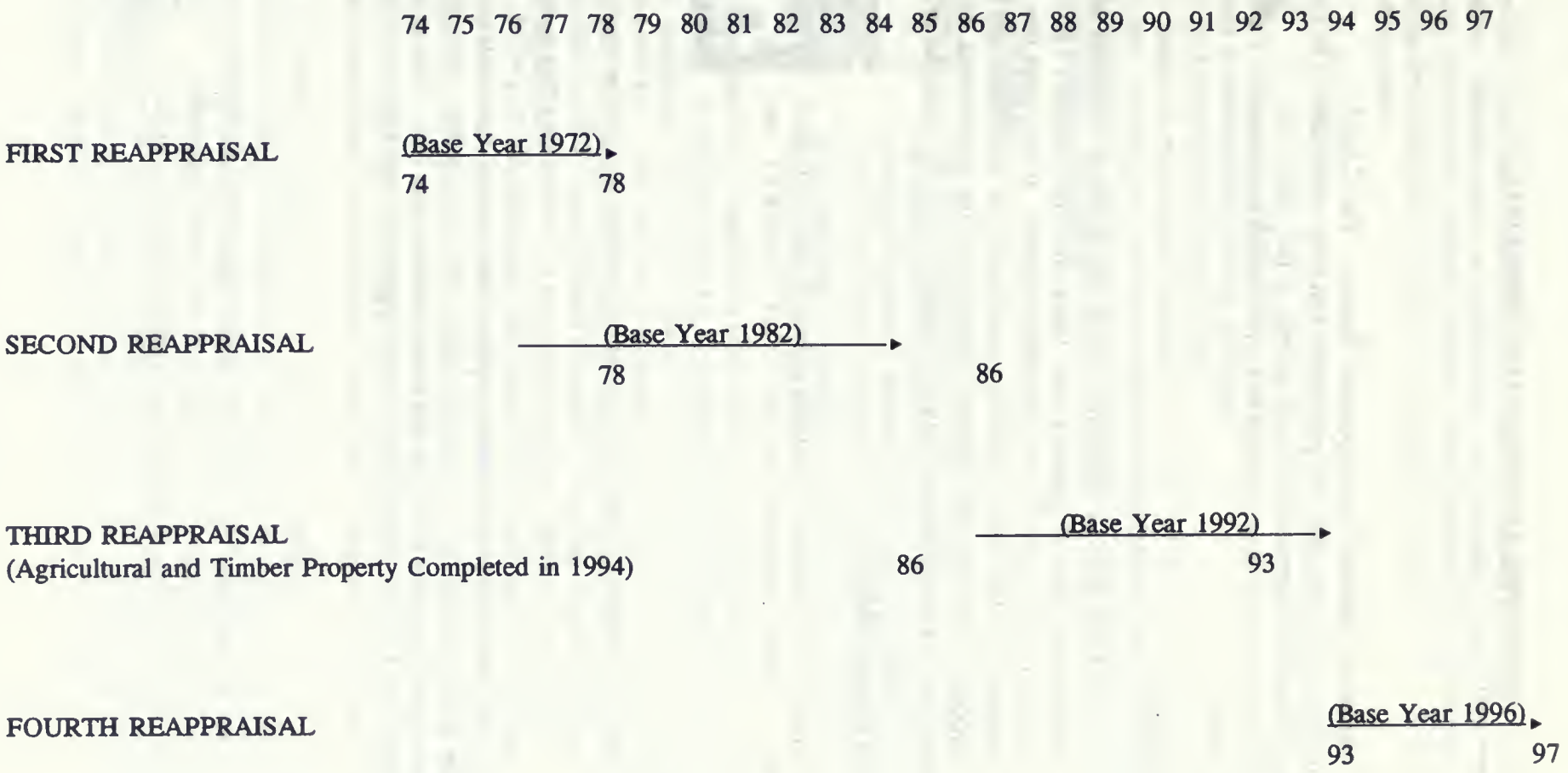
Note: Since the taxes paid to miscellaneous districts cannot be allocated to the property classes, this calculation underestimates the percent of total taxes paid by class 4 and class 11 property. Effective for 1994, class 4 and class 11 property will be combined.

Compiled by the Office of Research and Information, Montana Department of Revenue.
Based on Tax Year 1993 Taxable Values and Tax Year 1993 Mill Levies. 16-Nov-93

REAPPRAISAL CYCLES

Property Types	Cycles
Residential Land & Buildings	Current - 7 Years Beginning in 1993 - 4 Years Beginning in 1997 - 3 Years
Commercial Land & Buildings	Current - 7 Years Beginning in 1993 - 4 Years Beginning in 1997 - 3 Years
Business Equipment & Livestock	Annual
Inter-County Properties	Annual
Forest Lands	Current - 7 Years Beginning in 1994 - 3 Years
Agricultural Land	Current - 7 Years Beginning in 1994 - 3 Years

REAPPRAISAL CYCLES



COMPUTER ASSISTED MASS APPRAISAL

What is CAMAS?

CAMAS stands for Computer Assisted Mass Appraisal System. The CAMA System is a set of computer programs and user procedures that help create and maintain a database of property information for each county in the state. The database holds the records of property characteristics that affect the tax evaluation of each parcel in the state.

How Does CAMAS Work?

The CAMA System is designed to build and maintain consistent and accurate computerized files of property data (land and improvement) for residential, agricultural, commercial, and industrial properties. It uses these files to produce computer-assisted cost and market valuations of the residential and agricultural properties, and cost and income valuations of the commercial and industrial properties. It maintains property administration data in a separate subsystem from the property data.

Approaches to Value Using CAMAS

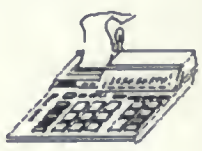
The CAMA System provides the department with the ability to utilize all three approaches to value. (These approaches include COST, MARKET and INCOME.0

Market Modeling

Market modeling gives appraisers the capability to value property using the comparable sales approach to establish market value. When a sufficient number of sales area available, market models can be developed. The models are then applied, in conjunction with a comparable sales analysis, to provide an estimate of the market value of each property. In making this analysis, individual properties are valued using three to five comparable sales. The comparables are adjusted to the subject for differences such as square foot of living area, location, year built, date of sale, quality grade, etc. The adjustments for each comparable are then applied to t heir sale price. The result is an estimate of value for the subject property, based on the adjusted sales of the comparable properties.

Income Modeling

Income modeling gives the appraiser the ability to value income producing properties using the income approach to value. In applying the income approach to value, the appraiser must determine market rents, expenses and appropriate capitalization rates.



When income modeling the appraiser develops a basic set of income and expense models based on market data. Through use of a capitalization rate, income is capitalized into an estimate of value. The models created reflect current economic trends in specific valuation areas. The value indications produced by the income approach and the cost approach are compared. A final value for the property is then determined.

Objective of CAMAS

The primary objective of CAMAS is to assist the department in determining uniform, accurate, equitable and defensible valuations of all types of classes of real property statewide. In order to do so, the data base itself must be uniform and accurate. A sound data base will enable the department to produce accurate, detailed reports and statistical information pertaining to the valuation of over 686,000 residential, commercial and agricultural properties statewide.

Success of CAMAS

The implementation of CAMA System has enabled the department to transfer necessary data such as owners names, addresses, legal descriptions, property class codes and values by electronic transfer to automated counties for tax assessment and billing systems resident on their county computer systems. This has enabled the department to reduce repetitious data entry that occurred prior to the implementation of CAMAS.

CAMAS has allowed the department to complete this reappraisal cycle with fewer employees than any previous cycle. In the last year of the department's 1978 reappraisal cycle, the Property Assessment Division employed 784 FTE. During the last year of the 1986 reappraisal cycle, the division employed 465 FTE. The division was authorized 397 FTE to complete the current reappraisal cycle. As promised, this reappraisal is being completed with less FTE than any previous reappraisal cycle.

Benefits of CAMAS

The CAMA System allows appraisal staff to maintain both multi-year and multi-cycle appraisal information. It maintains previous, current and future year information for the current appraisal cycle as well as future reappraisal information. It is these features that make CAMAS an intricate but complex system.

CAMAS allows the department to utilize all three approaches (cost, market and income) in the valuation of over 686,000 residential, commercial and agricultural properties statewide. This should help reduce the large number of appeals that have been inherent with the completion of previous reappraisal cycles.

CAMAS provides the State of Montana the opportunity to complete reappraisal cycles on a much more frequent basis than ever before. The legislature was confident enough in the department's new CAMA System to decrease appraisal cycles from 5 years to 3 years.

BUSINESS EQUIPMENT VALUATION SYSTEM

What is BEVS?

The Business Equipment Valuation System (BEVS) is a computer assisted valuation system that will assist assessment staff in the valuation and assessment of business equipment and livestock. The system generates market values for equipment and livestock identified in the system based on characteristic data such as quantity, make, model, year acquired, acquired cost, etc. The value of each piece of equipment and/or livestock identified for a specific business owner is recapped by class code to produce a valuation roll-up for that property.

Two years of personal property information (current/previous) can be maintained by the system. The current year's information is stored in a "working file" where changes are made and reports generated. The previous year's information is used for viewing only.

Benefits

Through automation county assessors and their staff will have the ability to generate turn-around documents (reporting forms) to send to property owners for review and verification of business equipment and livestock they have previously reported and are being assessed for. This will mean a substantial savings in time to property owners with large amounts of business equipment and/or livestock to report.

This system provides county assessors and assessment staff the ability to list and value business equipment and livestock reported to the Department by property owners more accurately, uniformly and quicker than ever before. BEVS will enable staff to produce statistical reports by specific property types. These reports can then be used to identify discrepancies in valuation between similar businesses.

Automation of business equipment and livestock valuation will greatly enhance efficiency and allow assessment staff the opportunity to concentrate their efforts on other responsibilities such as on-site field inspections of farms and businesses to ensure a greater degree of accuracy and equity in the valuation and assessment of these properties.

OTHER COMPUTER SYSTEMS

UAS System

The Division's utilizes a Utility Assessment System (UAS) to apportion its valuations of inter-county companies (railroads, telecommunication companies, electric utilities, pipelines and airlines) to individual counties and taxing jurisdictions. This system was designed and developed by Department staff and resides on the Division's central office local area network.

PAIMS

The Property Assessment Information Management System (PAIMS) is a statewide area network system that provides word processing support and statistical reporting capabilities to all 56 county offices. This system provides users the ability to compile and analyze statistical reports and other appraisal and assessment information generated from CAMAS and BEVS. PAIMS is used by division employees throughout the state.

PROPERTY CLASSES AND RATES

CLASSES OF PROPERTY AND TAX RATES

(Reflects Agricultural and Timber Class Changes That Are Effective For 1994)

The 1991 Legislature passed a bill consolidating the existing 17 property classes into 12. The revised property classification system is as follows (taxable value percentage is in parenthesis):

Class 1
- Net proceeds of all mines and mining claims except coal and metal mines *(100%)*

Class 2
- Gross proceeds of metal mines *(3%)*

Class 3
- Agricultural land *(3.86% of productive capacity)*
  Nonproductive patented mining claims *(3.86% of productive capacity as grazing land)*
- Nonagricultural land 20 acres or more but under 160 acres *(27.02% of productive capacity as grazing land)*

Class 4
- Residential, commercial, and industrial land and improvements *(3.86%)*
- Golf courses *(1.93%)*
- Idle agricultural and timber processing property *(3.86%)*
- Mobile homes *(3.86%)*
- Farmsteads and 1-Acre Homesites *(3.86%)*

Class 5
- Air and water pollution control equipment *(3%)*
- Rural electric and telephone cooperatives *(3%)*
- Real and personal property of "new industry" *(3%)*
- Machinery and equipment used in electrolytic reduction facilities *(3%)*
- Real and personal property of research and development firms *(3%)*
- Real and personal property used to produce gasohol *(3%)*

Class 6
- Livestock *(4%)*
- Rental or lease equipment valued at less than $5,000 *(4%)*
- Machinery and equipment used in canola seed oil processing facilities *(4%)*

Class 7
- Qualifying independent telephone cooperatives *(8%)*

Class 8
- Business personal property *(9%)*

Class 9
- Real & personal property of utilities, telecommunication companies and pipelines *(12%)*

Class 10
- Timberland *(currently 4%, the tax rate will be recalculated for 1994)*

Class 11
- Farmsteads and 1-acre homesites (effective January 1, 1994, combined into class 4).

Class 12
- Real and personal property of railroads and airlines *(7.53% for tax year 1992)*

RATIONALE FOR PLACING PROPERTY IN TAX CLASSES

Property in Montana was first placed in statutory tax classes in 1919. Seven classes were created by the Legislature. The fiscal impact was a 3 fold increase in assessed value.

Changes in tax classifications were made over the years including rate changes, movement of property between classes, and exemption of property from taxation. However, the most significant changes occurred in 1977 and 1979.

In 1977, the Legislature adopted a market value standard for valuing property and established rates for taxing the property (taxable value rates). This ended the fractional assessment of property in Montana. The 1977 legislation was designed to maintain effective tax rates for various types of property.

To maintain effective tax rates the number of classes was increased from 11 to 18. In addition, 2 more classes were created in 1977 bringing the total to 20.

The Legislature was concerned with the large number of classes. They provided for an interim study of classifications and the reasons for grouping types of property. As a result of the study, legislation was introduced and passed in 1979 grouping like property into the same class and reducing the classes from 20 to 10.

Through the 1980's the number of classes doubled returning to the 1977 grouping level of 20. Also, the property tax on several properties was replaced by fees.

The 1991 Legislature provided tax rate reductions to certain types of personal property. It then reduced the number of tax classes to 12 by combining those tax classes with similar property types and tax rates.

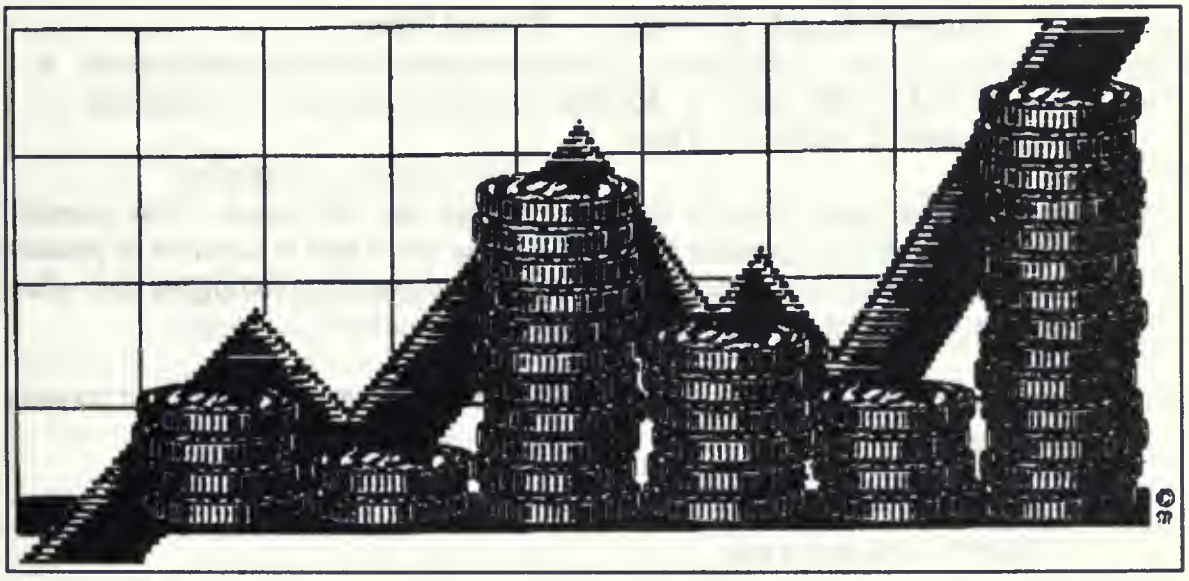
Perhaps the rational for placing property in classes can best be described as well intended, but at times inconsistent. Often the desire to address the concerns of individual property owners or small groups of owners has influenced property classification in Montana.

CLASS ONE (15-6-131, MCA) 100% of Annual Net Proceeds

- Includes the annual net proceeds of all mines and mining claims except coal and metal mines.
- Class one property is taxed at 100% of its annual net proceeds after deducting the expenses specified and allowed.

CLASS TWO (15-6-132, MCA) 3% of Annual Gross Proceeds

- Includes the annual gross proceeds of metal mines.
- Class two property is taxed at 3% of its annual gross proceeds.



CLASS THREE (15-6-133, MCA) 3.86% of Productive Capacities

- Reflects the agricultural class changes that are effective for 1994.

- Agricultural land and Nonproductive patented mining claims
  The property is appraised by the local appraisal office. The productive capacity of the land is based on the ability to produce net farm income.

- There are five classifications of agricultural land:
  1. Continuously cropped tillable / non-irrigated farmland.
  2. Fallow tillable / non-irrigated farmland.
  3. Irrigated tillable farmland.
  4. Continuously cropped hay land (wild hay).
  5. Grazing land.

- Given a 300 acre field, tillable fallow / non-irrigated farmland. Average yield is 25 bushels of wheat per acre.

  (300 acres @ $234.35 per acre)
  $70,305 = Market Value

  $70,305 X 3.86% = $2,714
  Market X Taxable percentage = Taxable Value

  $2,714 X 250 mills = $678.50
  Taxable X Mills = Taxes

- Nonagricultural land 20 acres or more but less than 160 acres. The property is appraised by the local appraisal office. The value of the land is based on its productive capacity as grazing land. The taxable value is computed by multiplying that value by a tax rate of 27.02%.

- Given a 100 acre parcel that is not eligible for valuation, assessment and taxation as agricultural land.

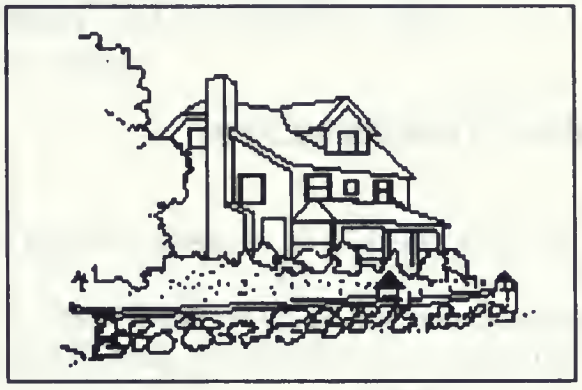
  (100 acres @ $29.92 per acre)
  $2,992 = Market Value

  $2,992 x 27.02% = $808
  Market x Taxable Percentage = Taxable Value

  $808 x 250 Mills = $202
  Taxable x Mills = Taxes

CLASS FOUR (15-6-134, MCA) 3.86% of Market Value

- Reflects farmstead and 1-are homesite class changes effective for 1994.
- All land and improvements (except those specifically included in another class). The property is appraised by the local appraisal office (except large industrial property).
- This includes residential, commercial, and industrial land and improvements (3.86%); Idle agricultural and timber processing property (3.86%); mobile homes (3.86%); farmsteads; 1-acre homesites; and golf courses (1.93%).



- Market value of land and improvements is calculated using the cost, income and market approaches by the county appraisal office.

$50,000 = Market Value

$50,000 X 3.86% = $1,930
Market X Taxable percentage = Taxable Value

$1,930 X 250 mills = $482.50
Taxable X Mills = Taxes

- For qualifying low income property owners, an adjustment is made to the taxable value of the property. The adjustment is based on the amount of their annual income.

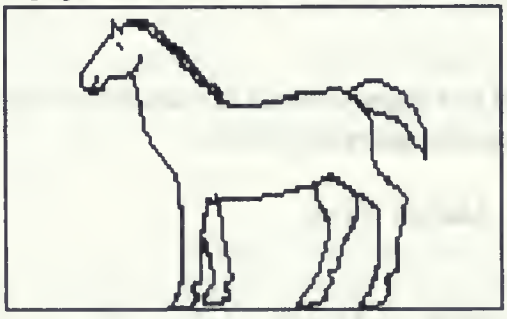
CLASS FIVE (15-6-135, MCA) 3% of Market Value

- Includes:
  1. Approved air and water pollution control equipment,
  2. All property used and owned by rural electric and telephone cooperatives,
  3. Real and personal property of "new industry",
  4. Machinery and equipment used in electrolytic reduction facilities,
  5. All qualifying property owned by a research and development firm,
  6. Any property used primarily in the production of gasohol (first 3 years).

- The market value of personal and real property is determined utilizing the same methods for other similar property, but classified at 3 percent.

CLASS SIX (15-6-136, MCA) 4% of Market Value

- Includes:
  1. Livestock and other species of domestic animals and wildlife raised in domestication,
  2. Rental or lease equipment valued at less than $5,000,
  3. Machinery and equipment used in a canola seed oil processing facilities.



- The market value of livestock is determined by an analysis of average market prices throughout a given area. The livestock also is charged a per head capita tax that is used for funding for the Department of Livestock.

Saddle Horse

$564 = Market Value

$564 X 4% = 23
Market X Taxable percentage = Taxable Value

$23 X 250 mills = $5.75
Taxable X Mills = Taxes

Per head Capita Tax = $1.58

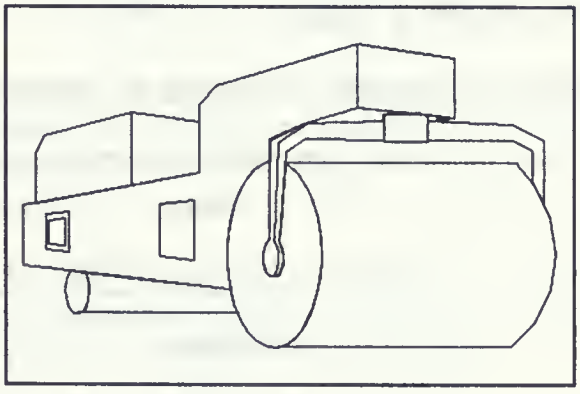
CLASS SEVEN (15-6-137,MCA) 8% of Market Value

- Qualifying independent telephone cooperatives

- The market value of personal and real property is determined utilizing the same methods for other similar property, but classified at 8 percent.

CLASS EIGHT (15-6-138, MCA) 9% of Market Value

- Business personal property.



- The market value for machinery and equipment is usually determined through use of the "Green Guide" manual or by applying a percent good factor to the F.O.B. or acquired cost.

Steamroller acquired in 1984 (36% good)

$7,200 = Market Value
(Acquired cost X Percent Good Table)

$7,200 X 9% = $648
Market X Taxable percentage = Taxable Value

$648 X 250 mills = $162
Taxable X Mills = Taxes

CLASS NINE (15-6-141, MCA) 12% of Market Value

- All real and personal property owned and used by centrally assessed companies (Electric, Telephone, and Pipeline).

- Centrally assessed companies are valued by staff appraisers in Helena by a method referred to as the "unit approach to value." The appraiser determines a system value for the company, allocates a portion to the state and then apportions values to the counties where the property is located.

- Three indicators are typically used to determine the system value of the company:

COST

INCOME

MARKET/STOCK AND DEBT

- The indicators are correlated (weighted to arrive at a system value):

SYSTEM VALUE

- The Department determines an allocated value to the state (what portion belongs to Montana):

ALLOCATED MONTANA VALUE

- The Department then apportions the allocated Montana value to the counties where the property is located.

CLASS TEN (15-6-143, MCA) Currently 4% of Market Value; Tax Class Percentage to be Recalculated for 1994

- Timberland (adjoining land exceeding 15 acres in one ownership that is capable of producing timber in commercial quantities).

- The timber is currently appraised at the present net worth of the standing timber. Tables for the present net worth of the standing timber were developed in the early 1960's and were updated to reflect stumpage values in 1986. The bare land under the timber is appraised at its productive value as grazing land.

- Effective for 1994, timberland will be valued on its productive capacity. The determination of the productive capability of all taxable timberland and the productivity value for that timberland is currently being finalized.

CLASS ELEVEN (Previously 15-6-144, MCA) Combined into Class 4

CLASS TWELVE (15-6-145, MCA) Taxable Percentage "R" Determined Annually

- All railroad transportation property as described in the Railroad Revitalization and Regulatory Reform Act (4R Act).

- All airline transportation property as described in the Tax Equity and Fiscal Responsibility Act (TEFRA).

- This property is valued by Helena staff utilizing the same valuation procedures as used for Class Nine property.

- The taxable percentage is determined by finding the effective taxable percentage for all other commercial property in the state.

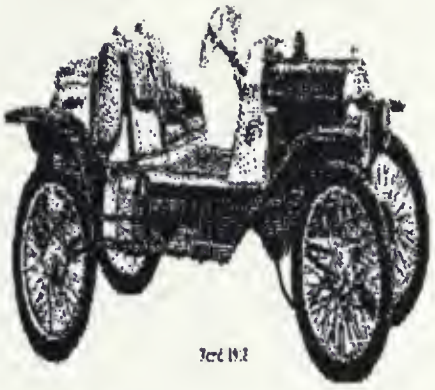
  R = A/B where

  A = total statewide taxable value of all commercial property, except class 12 property.

  B = total statewide market value of all commercial property, except Class 12 property.

- The taxable percentage "R" for 1992 was 7.53%.

OTHER TYPES OF PROPERTY



- Automobiles and trucks having a capacity of 1 ton or less are not classified in the property classes. They are valued under 61-3-503. The market value is usually determined by using the average trade in value as found in the NADA guides.

- The taxes are calculated by multiplying the market value times 2 percent. The county may also levy an additional .5 percent local option vehicle tax.

  $9,600 = Market Value
  NADA average trade in

  $9,600 X 2% = $192
  Market X percent = Tax

The following types of property are subject to a fee in lieu of property tax:

Campers
Motor homes
Boats
Airplanes (not in Class Nine)
Off road vehicles
Travel trailers

MONTANA RESIDENTIAL RELIEF

Low Income

LOW INCOME PROPERTY TAX REDUCTION

FORM PPB-8

Montana property owners can have their property taxes reduced for 1994 if they meet certain qualifications. The form to receive the credit is filed with the County Assessor in the county where the property is located.

OWNERSHIP: The home or mobile home must be owned or under contract for deed.

RESIDENCY: The owner must occupy the dwelling for at least 10 months as their primary residence.

INCOME: The owner's total income, including otherwise tax exempt income, must not exceed $13,361 for a single person or $16,034 for a married couple. Social Security income paid to a nursing home is not considered income.

EXAMPLES:

1. wages, fees, bonuses, capital gains, ordinary income, interest, and dividends;
2. total income from business, partnerships, rents, royalties;
3. payments and interest on federal, state, county, and municipal bonds;
4. alimony, public assistance, unemployment, and tax refunds; and
5. all pensions and annuities, including railroad retirement, PERS, veteran's disability and social security.

APPLICATIONS: The owner must apply for the reduction before March 1 of each year.

MAILING: The PPB-8 form must be mailed or delivered to the County Assessor at your Courthouse.

QUESTIONS: Telephone your County Assessor or the Property Assessment Division in Helena at 443-0811.

COMPUTATION: The reduction is determined using the property owner's total income including the spouses income. The tax rate applied to the market value of the property is reduced depending on the owner's income.

INCOME TABLE:

1994 TAXABLE VALUE RATE TABLE FOR LOW INCOME REDUCTION

Single			Married or Head of Household			Land and Improvements
$0	-	$1,336	$0	-	$1,603	0.000%
1,337	-	2,672	1,604	-	3,207	0.386%
2,673	-	4,008	3,208	-	4,810	0.772%
4,009	-	5,345	4,811	-	6,413	1.158%
5,346	-	6,681	6,414	-	8,017	1.544%
6,682	-	8,017	8,018	-	9,620	1.930%
8,018	-	9,353	9,621	-	11,223	2.316%
9,354	-	10,689	11,224	-	12,827	2.702%
10,690	-	12,025	12,828	-	14,430	3.088%
12,026	-	13,361	14,431	-	16,034	3.474%

EXAMPLE:

Market Value (appraised value) of the home = $50,000

Income for a married couple living in town = $6,580

DETERMINATION OF PROPERTY TAX WITHOUT REDUCTION

$50,000 (market value) x 3.86% = $1,930 (taxable)

$1,930 (taxable) x .250 (local mill levy) = $482 (property tax)

WITH REDUCTION

$50,000 (market value) x 1.544% (see table) = $772 (taxable)

$772 (taxable) x .250 (local mill levy) = $193 (property tax)

LOW INCOME APPLICATIONS APPROVED 1993 - 9,565

County	Applications Approved
Beaverhead	123
Big Horn	58
Blaine	55
Broadwater	68
Carbon	159
Carter	26
Cascade	614
Chouteau	35
Custer	129
Daniels	23
Dawson	114
Deer Lodge	190
Fallon	30
Fergus	120
Flathead	813
Gallatin	238
Garfield	7
Glacier	82
Golden Valley	9
Granite	42
Hill	142
Jefferson	118
Judith Basin	12
Lake	291
Lewis & Clark	456
Liberty	14
Lincoln	332
Madison	75

County	Applications Approved
McCone	20
Meagher	40
Mineral	69
Missoula	950
Musselshell	82
Park	166
Petroleum	4
Phillips	109
Pondera	54
Powder River	11
Powell	100
Prairie	17
Ravalli	687
Richland	124
Roosevelt	51
Rosebud	39
Sanders	208
Sheridan	44
Silver Bow	853
Stillwater	74
Sweet Grass	82
Teton	58
Toole	51
Treasure	12
Valley	87
Wheatland	21
Wibaux	6
Yellowstone	1,172

ASSESSMENT NUMBER

NAME

DEPARTMENT OF REVENUE

MAILING ADDRESS

County Assessor's Office

CITY STATE ZIP CODE

APPLICATION FOR QUALIFICATION UNDER CLASS 4 CLASSIFICATION AS PROVIDED FOR BY SECTIONS 15-6-134 AND 15-6-151 MCA.

NOTICE

THIS FORM IS TO BE RETURNED TO YOUR LOCAL COUNTY ASSESSOR'S OFFICE BEFORE MARCH 1ST OR NO REDUCTION WILL BE ALLOWED.

I affirm that (I) (We) own and occupy a home or mobile home with appurtenant land and that I am married_____ head of household_____ single_____ , that I am a recipient of income (last year's) from all sources, including otherwise tax exempt income of all other types, of not more than $13,361 per year if single or $16,034 combined income per year if married or head of household and that (I) (We) actually occupy the home or mobile home for at least 10 months a year.

SIGNATURE _____ SOCIAL SECURITY NUMBER _____

NAME OF SPOUSE _____ SOCIAL SECURITY NUMBER _____

PHONE NUMBER _____ DATE _____

Please list below TOTAL INCOME FROM ALL SOURCES including otherwise tax exempt income of all types for the calendar year preceeding the year of application.

$ _____ SOCIAL SECURITY
Gross from Federal Form 1099. Do not include Social Security paid directly to a nursing home

$ _____ RAILROAD PENSION

$ _____ TEACHERS PENSION

$ _____ EMPLOYMENT PENSION

$ _____ VETERANS PENSION

$ _____ ANY OTHER PENSION

$ _____ WELFARE PAYMENTS

$ _____ AID TO DEPENDENT CHILDREN

$ _____ INTEREST FROM ALL SOURCES

$ _____ ANY OTHER INCOME

$ _____ EMPLOYMENT INCOME

$ _____ NET BUSINESS INCOME BEFORE DEPRECIATION AND/OR DEPLETION
(Copy of IRS Schedule C or F must be attached)

$ _____ NET RENTAL INCOME BEFORE DEPRECIATION AND/OR DEPLETION
(Copy of IRS Schedule C or F must be attached)

$ _____ DISABILITY INCOME

$ _____ UNEMPLOYMENT BENEFITS

$ _____ MAINTENANCE (Alimony)

$ _____ CHILD SUPPORT

$ _____ TOTAL (Office use only)

FOR DEPARTMENT USE ONLY

This reduction applies to the first $80,000 or less of the market value of any mobile home or improvement on real property and appurtenant land not exceeding 5 acres.

Legal Description _____

LAND: CODE _____ MARKET VALUE _____ TAXABLE % _____

IMP.: CODE _____ MARKET VALUE _____ TAXABLE % _____

(To be used for land and/or improvements exceeding the first $80,000)

LAND: CODE _____ MARKET VALUE _____ TAXABLE % _____

IMP.: CODE _____ MARKET VALUE _____ TAXABLE % _____

Form PPB-8 Revised 1993

Circuit Breaker

ELDERLY HOMEOWNER/RENTER CREDIT
(Circuit Breaker)

How the Program Works

The circuit breaker provides tax relief to specific homeowners based on the relationship between the homeowner's property tax and income. (In the case of renters, the property tax equivalent is defined to be 15 of the gross rent paid during the tax year.)

Due to the inter-relationship between property tax and income levels, certain property owners (renters) will not be eligible to receive any benefit from this program. Generally, these are individuals whose property values or rents are low in relation to their income. To understand this fully, it is necessary to understand how the circuit breaker program works. This section discusses the credit as it applies to a homeowner, but the same principles also apply to renters.

The amount of credit allowed is equal to the amount of property tax paid less a deduction:

Credit = Property Tax Paid - Deduction

The amount of the deduction is equal to a specific percentage of "household income". These percentages are set in statute, and increase as household income increases in accordance with the following schedule:

Household Income	Amount of Deduction
$0 - 999	$0
1,000 - 1,999	$0
2,000 - 2,999	the product of .006 times the household income
3,000 - 3,999	the product of .016 times the household income
4,000 - 4,999	the product of .024 times the household income
5,000 - 5,999	the product of .028 times the household income
6,000 - 6,999	the product of .032 times the household income
7,000 - 7,999	the product of .035 times the household income
8,000 - 8,999	the product of .039 times the household income
9,000 - 9,999	the product of .042 times the household income
10,000 - 10,999	the product of .045 times the household income
11,000 - 11,999	the product of .048 times the household income
$12,000 & over	the product of .050 times the household income

"Household income", as used in this table is equal to "gross household income" less $4,000 or 50% of retirement benefits, whichever is greater. **Gross household income** is all income of all individuals in the household, and includes federal adjusted gross income plus all nontaxable income as defined in statute. **Also, in no case may the amount of the credit exceed $400.**

A specific example should help clarify how this program works. Assume the taxpayer lives in a house valued at $60,000 and faces the statewide average mill levy of 365 mills. The taxpayer has $15,500 of total income. Based on these assumptions, this individual is entitled to a credit equal to $293.34, calculated as follows:

Market value	$ 60,000
Taxable value rate	.0386
Taxable value	$ 2,316
Mill levy	.365
Property tax	**$ 845**
Gross income	$ 15,500
Exclusion	$ (4,000)
Household income	$ 11,500
Deduction factor	.048
Deduction	**$ 552**
Credit ($845 - $552)	**$ 293**

As discussed earlier, certain individuals will not be eligible for the credit depending on the relationship of their property tax to their income. In the above example, individuals with the same property tax but whose incomes exceed $20,900 would not be entitled to any credit, because the calculation of the deduction amount would exceed the property tax paid.

Current Use of Program

Data retrieval systems within the individual income tax division show the following information regarding use of this program for the past two years:

Year	Claimants	Total Credit	Average Credit
1990	16,490	$ 3,586,692	$ 217
1991	17,294	$ 4,091,665	$ 237

Between 1990 and 1991, the number of claimants participating in this program increased by 5 percent.

HOUSING PROFILE 23 - HOUSEHOLD INCOME IN 1989 BY VALUE
THE RACE OF THIS PROFILE IS: ALL PERSONS

STATE: MONTANA AREA NAME: MONTANA SUMMARY LEVEL: 040
COUNTY: MCD/CCD: PLACE: TRACT/BNA: BLOCK GROUP: INDIAN RESERVATION: N

HB54. HOUSEHOLD INCOME IN 1989 BY VALUE
(UNIVERSE: SPECIFIED-OWNER OCCUPIED HOUSING UNITS)

	TOTAL		UNDER $5,000		$5,000 - $9,999		$10,000 - $14,999		$15,000 - $19,999		$20,000 - $24,999		$25,000 - $29,999	
	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT
ALL VALUES	133,194	100.0	4,744	3.6	11,045	8.3	12,232	9.2	13,052	9.8	13,418	10.1	12,922	9.7
LESS THAN $15,000	5,615	4.2	724	0.5	1,589	1.2	980	0.7	778	0.6	540	0.4	327	0.2
$ 15,000 - $ 19,999	3,603	2.7	318	0.2	716	0.5	660	0.5	573	0.4	340	0.3	273	0.2
$ 20,000 - $ 24,999	4,450	3.3	259	0.2	775	0.6	852	0.6	692	0.5	589	0.4	407	0.3
$ 25,000 - $ 29,999	5,434	4.1	360	0.3	863	0.6	935	0.7	745	0.6	730	0.5	596	0.4
$ 30,000 - $ 34,999	6,919	5.2	415	0.3	1,051	0.8	979	0.7	933	0.7	811	0.6	776	0.6
$ 35,000 - $ 39,999	7,696	5.8	353	0.3	1,009	0.8	1,050	0.8	1,021	0.8	1,017	0.8	937	0.7
$ 40,000 - $ 44,999	9,764	7.3	338	0.3	989	0.7	1,106	0.8	1,324	1.0	1,390	1.0	1,166	0.9
$ 45,000 - $ 49,999	9,466	7.1	297	0.2	732	0.5	975	0.7	1,150	0.9	1,337	1.0	1,227	0.9
$ 50,000 - $ 59,999	21,125	15.9	576	0.4	1,237	0.9	1,789	1.3	2,204	1.7	2,529	1.9	2,552	1.9
$ 60,000 - $ 74,999	27,204	20.4	498	0.4	1,141	0.9	1,536	1.2	2,065	1.6	2,386	1.7	2,647	2.0
$ 75,000 - $ 99,999	20,204	15.2	340	0.3	648	0.5	961	0.7	1,064	0.8	1,338	1.0	1,419	1.1
$100,000 - $124,999	5,671	4.3	72	0.1	128	0.1	216	0.2	219	0.2	252	0.2	348	0.3
$125,000 - $149,999	2,719	2.0	76	0.1	73	0.1	100	0.1	130	0.1	112	0.1	107	0.1
$150,000 - $174,999	1,319	1.0	20	0.0	31	0.0	36	0.0	52	0.0	41	0.0	67	0.1
$175,000 - $199,999	700	0.5	21	0.0	21	0.0	11	0.0	34	0.0	26	0.0	34	0.0
$200,000 - $249,999	746	0.6	33	0.0	11	0.0	24	0.0	35	0.0	30	0.0	32	0.0
$250,000 - $299,999	338	0.3	24	0.0	7	0.0	15	0.0	11	0.0	22	0.0	9	0.0
$300,000 - $399,999	107	0.1	3	0.0	0	0.0	2	0.0	11	0.0	13	0.0	5	0.0
$400,000 - $499,999	39	0.0	5	0.0	4	0.0	0	0.0	0	0.0	0	0.0	0	0.0
$500,000 OR MORE	75	0.1	12	0.0	20	0.0	5	0.0	11	0.0	5	0.0	2	0.0

WITHIN EACH INCOME BRACKET, HOUSEHOLDS ABOVE SOLID LINE NOT ELIGIBLE FOR CREDIT

	$30,000 - $34,999		$35,000 - $39,999		$40,000 - $49,999		$50,000 - $59,999		$60,000 - $74,999		$75,000 - $99,999		$100,000 OR MORE	
	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT	#	PCT
ALL VALUES	12,606	9.5	11,078	8.3	16,768	12.6	10,735	8.1	7,493	5.6	4,102	3.1	2,999	2.3
LESS THAN $15,000	246	0.2	138	0.1	132	0.1	75	0.1	48	0.0	18	0.0	20	0.0
$ 15,000 - $ 19,999	283	0.2	176	0.1	135	0.1	75	0.1	29	0.0	9	0.0	16	0.0
$ 20,000 - $ 24,999	319	0.2	170	0.1	259	0.2	57	0.0	33	0.0	14	0.0	24	0.0
$ 25,000 - $ 29,999	401	0.3	363	0.3	268	0.2	97	0.1	26	0.0	34	0.0	16	0.0
$ 30,000 - $ 34,999	600	0.5	408	0.3	495	0.4	277	0.2	93	0.1	52	0.0	29	0.0
$ 35,000 - $ 39,999	687	0.5	569	0.4	604	0.5	232	0.2	134	0.1	49	0.0	34	0.0
$ 40,000 - $ 44,999	982	0.7	688	0.5	1,053	0.8	424	0.3	185	0.1	88	0.1	31	0.0
$ 45,000 - $ 49,999	1,037	0.8	881	0.7	950	0.7	433	0.3	277	0.2	94	0.1	76	0.1
$ 50,000 - $ 59,999	2,417	1.8	2,246	1.7	2,859	2.1	1,585	1.2	688	0.5	343	0.3	100	0.1
$ 60,000 - $ 69,999	3,108	2.3	2,666	2.0	5,241	3.9	2,890	2.2	1,990	1.5	802	0.6	324	0.2
$ 70,000 - $ 99,999	1,744	1.3	2,015	1.5	3,489	2.6	3,144	2.4	2,336	1.8	1,167	0.9	548	0.4
$100,000 - $124,999	400	0.3	409	0.3	793	0.6	723	0.5	857	0.6	650	0.5	604	0.5
$125,000 - $149,999	167	0.1	200	0.2	335	0.2	392	0.3	390	0.3	369	0.3	378	0.3
$150,000 - $174,999	92	0.1	71	0.1	114	0.1	145	0.1	167	0.1	163	0.1	320	0.2
$175,000 - $199,999	33	0.0	28	0.0	59	0.0	43	0.0	120	0.1	99	0.1	167	0.1
$200,000 - $249,999	52	0.0	42	0.0	62	0.0	77	0.1	72	0.1	76	0.1	199	0.1
$250,000 - $299,999	19	0.0	0	0.0	25	0.0	39	0.0	16	0.0	56	0.0	95	0.1
$300,000 - $399,999	0	0.0	0	0.0	0	0.0	8	0.0	31	0.0	16	0.0	18	0.0
$400,000 - $499,999	13	0.0	2	0.0	0	0.0	15	0.0	0	0.0	0	0.0	0	0.0
$500,000 OR MORE	6	0.0	6	0.0	5	0.0	0	0.0	0	0.0	3	0.0	0	0.0

ELDERLY HOMEOWNER/RENTER CREDIT

FORM 2EC

Taxpayers can receive a maximum $400 refundable credit for paying property taxes or rent. The form to receive this credit can be filed with the income tax return or by itself if a tax return is not required to be filed.

AGE: The taxpayer or spouse must be age 62 or older as of December 31, 1993.

RESIDENCY: 1) Taxpayer must have resided in Montana for 9 months or more, and

2) must have occupied a Montana residence as owner or renter for a total of 6 months during 1993.

FILING INFORMATION: Form 2EC can be filed (1) by itself, if the individual is not required to file a tax return or (2) with the Montana income tax return.

Only **one** claim per household may be filed.

DUE DATE: Form 2EC must be submitted on or before April 15, 1994.

If Form 2EC is filed late, a letter stating the reason for being late must be attached. If there is good reason for the late filing, the claim will be accepted. Claims filed more than 5 years late will not be accepted.

MAILING ADDRESS:

Income Tax Division
P.O. Box 5805
Helena, MT 59604

QUESTIONS: Telephone toll-free 1-800-332-6103 until April 15, or 444-2837.

COMPUTATION: The credit is computed using household income and general property taxes paid on residence and land or rent paid in 1993.

HOUSEHOLD: An association of persons who live in the same dwelling, sharing its furnishings, facilities, accommodations and expenses. It does not include bona fide lessees, tenants, or roomers and boarders on contract.

HOUSEHOLD INCOME:

Includes **total** income, whether taxable or not, received by all individuals of a household while they are members of the household. Total income is reduced by the greater of $4000 or 50% of total retirement benefits to arrive at household income. Income (such as social security) paid directly to a nursing home by an agency is not considered income.

Losses cannot be included with income.

EXAMPLES:

1. wages, fees, bonuses, capital gains, ordinary income, interest, & dividends.
2. total income for business, partnerships, rents, royalties, etc.
3. payments and interest on federal, state, county & municipal bonds.
4. alimony, public assistance, unemployment, & tax refunds.
5. all pensions & annuities, including railroad retirement, PERS, veteran's disability & social security.

NET ALLOWABLE HOUSEHOLD INCOME:

Computed by multiplying household income by a multiplier figure provided on Form 2EC.

If net allowable household income is less than allowable property tax and/or rent paid, the individual will receive a refund for the difference, not to exceed $400.

GENERAL PROPERTY TAXES:

The general ad valorem taxes levied against the house and surrounding land, not in excess of one acre, exclusive of special assessments, penalties, or interest **and** paid during the claim period.

General property taxes differ from county to county.

SPECIAL ASSESSMENTS:

Includes: transit fees, city assessment, sprinkling, sanitation, maintenance fees, garbage, landfill, storm sewer, paving, lighting, irrigation, water system, sweeping, T.V. district, predator or mosquito control, livestock, rural fire, and any special improvement district (SID) charges.

ALLOWABLE RENT PAID: Computed by multiplying rent paid on the residence by a 15% rent equivalent.

VERIFICATION REQUIRED BY THE DEPARTMENT OF REVENUE

HOMEOWNER: A copy of the "paid" property tax receipt, property tax certification form or a letter from the County Treasurer showing total **general** taxes paid in 1993 **must** be attached to Form 2EC.

RESIDENCE OVER 1 ACRE: Multiply taxable value of residence and land not exceeding 1 acre by the district mill levy.

RENTER: Residents of subsidized housing are allowed to claim the credit. Only the actual amount of rent paid can be claimed.

Copies of canceled checks or a rent receipt from the landlord **must** be attached to Form 2EC

HOMEOWNER & RENTER: Attach rent and property taxes paid if you (1) own your home and rent the land or (2) rent your home and own the land.

R

Form 2EC

Montana

1990 ELDERLY HOMEOWNER/RENTER CREDIT 1990

File on or before April 15, 1991 or with your Form 2 or 2S

DO NOT USE THIS SPACE

LAST NAME	First Name & Middle Initial	Your Social Security No.
		– –
Spouse's last name if different	Spouse's First Name & Initial	Spouse's Social Security No.
		– –
Mailing Address	City	State / Zip Code
Property Address if different	City	State / Zip Code

PART I IF THE ANSWER TO ANY OF THE QUESTIONS BELOW IS NO, YOU'RE NOT ELIGIBLE FOR THE CREDIT. DO NOT COMPLETE THIS SCHEDULE.	YES	NO
Were you age 62 or older as of December 31, 1990?		
Did you reside in this state for 9 months or more during 1990?		
Did you occupy Montana residence(s) as an owner or renter a total of 6 months during 1990?		

PART II—List Income From All Members of the Household (See Instructions)

1. Enter total income received from wages, fees, bonuses, all capital gains, ordinary income, dividends and interest ..... 1. _____
2. Enter total income for business, partnerships, rents, royalties, etc. ..... 2. _____
3. Enter any payments and interest on federal, state, county and municipal bonds ..... 3. _____
4. Enter alimony, public assistance, unemployment, tax refunds, etc. ..... 4. _____
5. Enter all pensions and annuities, including Railroad Retirement, PERS, Veteran's Disability, Social Security, etc. ..... 5. _____
6. Total income (Add lines 1 thru 5) ..... TOTAL ► 6. _____
7. Multiply the amount on Line 5 times 50% (.5) and enter the result here ..... 7. _____
8. Enter the greater of $4,000 or the amount on line 7 ..... TOTAL ► 8. _____
9. Total household income. Subtract line 8 from line 6 (if less than zero enter zero) ..... TOTAL ► 9. _____

PLEASE FOLLOW INSTRUCTIONS ON THE BACK WHEN COMPLETING THIS FORM

HOMEOWNER—Complete line 10 (Renters—Use line 11)

10. General property tax paid on residence and land in 1990 (Not to exceed 1 acre, do not include special assessments or fees.) (See instructions) ..... 10. _____

RENTER—Complete form on reverse side

11. Rent paid on residence in 1990 (attach receipts) ..... 11. _____
12. Rent equivalent—Multiply line 11 by 15% (.15) ..... 12. _____
13. Total of allowable property tax and/or allowable rents paid—Line 10 and/or line 12 ..... ► 13. _____

PERCENT OF HOUSEHOLD INCOME COMPUTATION

14. Total household income from line 9 ..... 14. _____
15. Enter multiplier figure from tax table on reverse side ..... 15. _____
16. Net allowable household income—Multiply line 14 by line 15 ..... 16. _____
17. Subtract line 16 from 13 (If this is zero or less, you cannot take the credit; do not file this form) ..... 17. _____
18. Enter the amount from line 17 or $400 whichever is smaller (The maximum refund is $400) ..... ► 18. _____

If you file a Montana State Tax Form 2, enter amount from line 18 on line 57.
If you file a Montana State Tax Form 2S, enter amount from line 18 on line 34.
If you are not required to file Form 2 or 2S, mail this form to the address stated below.
Montana Department of Revenue, Income Tax Division, P.O. Box 5805, Helena, MT 59604.

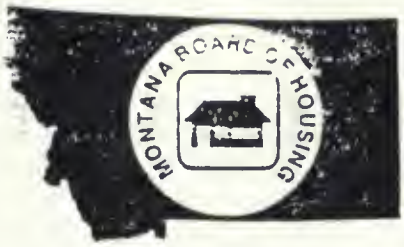
REFUNDS WILL BE ISSUED THROUGH THE INCOME TAX DIVISION

I declare under penalty of false swearing that the information in this return and attachment is true, correct and complete.

Your signature _____ Date _____ Telephone Number _____ Spouse's signature _____ Date _____

RETURN WILL NOT BE PROCESSED WITHOUT PROPERTY TAX CERTIFICATION, PAID PROPERTY TAX OR RENT RECEIPT(S) ATTACHED

Reverse Annuity



Montana Board of Housing
Reverse Annuity Mortgage Loan
Pilot Program

FACT SHEET

PURPOSE: Many senior citizens in Montana own their own homes, and have little or no remaining mortgage debt. Many of these homeowners are persons of lower income who would benefit from an additional income source from the use of equity in their homes. The reverse annuity mortgage loans would enable senior homeowners to provide more substantially for their own in-home support and specialized care.

Available Funding: $482,520

Mortgage Interest Rate: 7.0%

Age Requirement: All borrowers to be 65 years of age or older.

Income Limit: The Borrower's Annual Family Income must not exceed the following:

1 person household	$10,500
2 person household	13,800
3 person household and up	15,500

Property Eligibility: The home must be located in Montana. The borrowers must be the owner and occupant of a single-family dwelling that is unencumbered by any prior mortgage, lien or pledge (up to $2,500 may be advanced to pay encumbrances on the title or for needed repairs to the home). A single-family dwelling means a one-to-four-family living unit, excluding a condominium or a single-wide mobile home. A single-family dwelling must meet minimum FHA property standards as determined by an FHA appraisal.

Loan Amount: The loan amounts range from a minimum of $15,000 to a maximum of $40,000. The maximum loan amount is determined based on 80% of the FHA determined property value.

Payment Terms: The net loan proceeds are advanced monthly to the borrowers based on a ten-year term.

Lump Sum Advances: Lump sum advances up to $3,300 are available at loan closing. $2,500 is available for such items as payment of prior mortgages, liens, pledges or for needed repairs to the home. $800 is available for certain loan closing costs. Lump sum advances reduce the amount of the monthly loan advance.

Counseling: Potential borrowers must complete a reverse annuity mortgage counseling program in order to submit an application. The counseling network is provided through the Montana Aging Services Network.

Applications: Applications may be obtained by contacting the Montana Board of Housing, 2001 11th Avenue, Helena, MT 59620, telephone 444-3040 or the Office on Aging, P.O. Box 204001, Helena, MT 59620-4001, telephone 1-800-332-2272. The applications may be completed during the required reverse annuity mortgage counseling.

June, 1993

MONTANA BOARD OF HOUSING
REVERSE ANNUITY MORTGAGE LOAN PROGRAM
STATUS REPORT
9/16/93

LOANS CLOSED:

Community	Closing Date	Household Size	Borrower(s) Age at closing	Borrower(s) Annual Income	Loan Amount	Total Principal To Be Advanced Over 120 Periods	Property Appraised Value	Loan To Value %	Total Principal To Be Advanced To Value %
Missoula	4/30/91	1	79	$ 5,652	$ 36,800	$ 25,134	$46,000	80%	54%
Missoula	4/30/91	1	70	$ 9,326	$ 40,000	$ 27,339	$58,400	68%	47%
Polson	4/30/91	1	81	$ 7,696	$ 40,000	$ 27,339	$84,000	48%	33%
Somers	5/21/91	1	71	$ 5,314	$ 25,000	$ 17,001	$36,000	69%	47%
Butte	7/12/91	1	75	$ 7,104	$ 25,200	$ 17,370	$31,500	80%	55%
Dillon	9/23/91	2	78 & 78	$ 7,620	$ 40,000	$ 27,339	$51,000	78%	53%
Hamilton	9/27/91	1	70	$ 9,370	$ 40,000	$ 27,339	$76,000	53%	36%
Kalispell	3/4/92	2	84 & 81	$ 9,996	$ 33,000	$ 21,552	$50,000	66%	43%
Malta	5/4/92	1	70	$ 5,280	$ 16,800	$ 10,936	$21,000	80%	52%
Great Falls	11/10/92	2	73 & 70	$10,161	$ 40,000	$ 26,377	$56,500	71%	47%
TOTAL					$336,800	$227,726			

Average Borrower(s) Age: 75.4 years
Average Household Income: $ 7,751
Average Loan To Value: 69.3%
Average Total Principal To Value: 46.7%

MONTANA BOARD OF HOUSING
REVERSE ANNUITY MORTGAGE LOAN PROGRAM
STATUS REPORT
9/16/93

REPAID LOANS:

Community	Prepay Date	Household Size	Borrower(s) Age at closing	Borrower(s) Annual Income	Loan Amount	Total Principal To Be Advanced Over 120 Periods	Prepay Amount
Billings	11/20/92	2	85 & 86	$10,626	$ 40,000	$ 27,339	$ 2,459
Missoula	4/15/93	1	84	$ 6,960	$ 28,000	$ 18,610	$ 4,865

ALLOCATIONS BY AREA OF APPLICATIONS IN PROCESS (through 9/16/93)

Community	House-hold Size	Borrower Age	Borrower Annual Income	Proposed Loan Amount	Total Principal + Lump Sum To Be Advanced Over 120 Periods	Status
Alberton	1	75	$ 9,232	$ 40,000	$ 26,377	Verification of title commitment to be completed.
Billings	2	79 & 78	$10,436	$ 40,000	$ 26,300	Verification of title commitment to be completed.
Great Falls	1	78	$ 6,430	$ 40,000	$ 26,300	Waiting for appraiser to be assigned.
TOTAL				$120,000	$ 78,977	

STATUS OF RAM ALLOCATION
OF LOAN FUNDS
9/16/93

Original RAM Allocation	$730,300
Less: RAM Loans (10)	(227,726)
Loans in Process (3)	(78,977)
Plus: RAM Prepaid Loans (2)	7,324
General Pool Allocation Available	$430,921

PROPERTY TAX

REVENUE

TAXABLE VALUE AND ESTIMATED TAXES LEVIED BY PROPERTY CLASS - FISCAL YEAR 1994

Class	Description	Taxable Value	Estimated Taxes Levied
1	Net Proceeds	5,366,912	1,534,097
2	Gross Proceeds	10,559,998	3,606,160
3	Ag Land	141,808,953	44,156,272
4	Class 4		
	Residential	521,850,219	200,458,876
	Commercial	215,535,201	87,581,550
	SID's (Special Improvement Districts)		28,603,213
	Subtotal Class 4		316,643,639
5	Co-ops, Poll. Control	26,951,498	6,659,837
6	Livestock	28,579,729	8,828,326
7	Independent Telephone	990,534	326,500
8	Business Equipment	241,338,828	80,904,608
9	Utilities	413,946,032	113,244,518
10	Timber Land	6,410,390	2,099,608
11	Farmsteads	59,794,266	18,996,388
12	Railroads and Airlines	58,814,944	19,126,362
	Total	1,731,947,504	616,126,315
	Taxes Paid to Miscellaneous Districts		44,588,355
	Grand Total of Property Taxes Paid For All Purposes		660,714,670

Percent of Total Property Taxes Paid by Class 4 and Class 11 Property

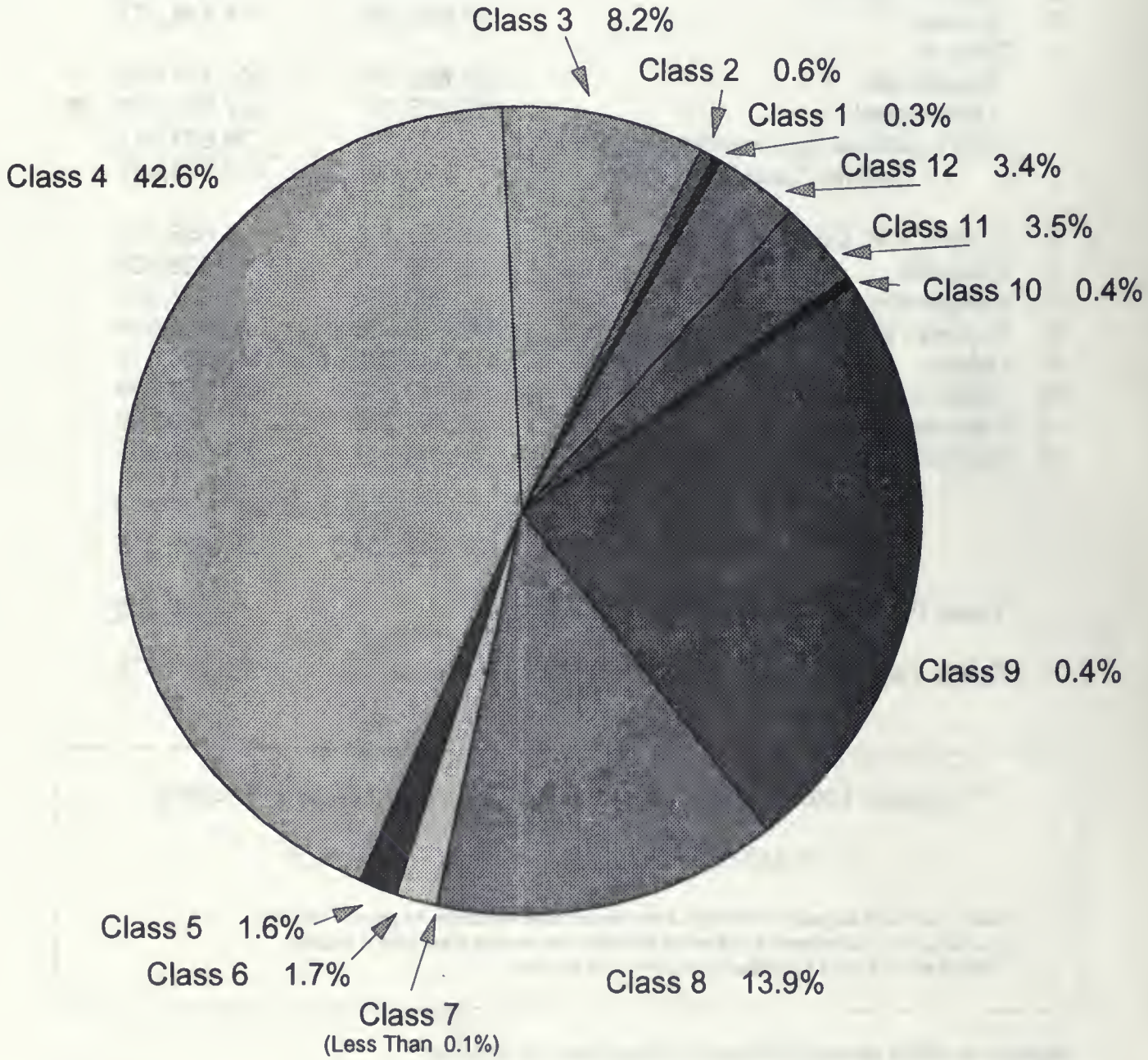
(316,643,639+18,996,388) / 660,714,670 = 51%

Note: Since the taxes paid to miscellaneous districts cannot be allocated to the property classes, this calculation underestimates the percent of total taxes paid by class 4 and class 11 property. Effective for 1994, class 4 and class 11 property will be combined.

Compiled by the Office of Research and Information, Montana Department of Revenue.
Based on Tax Year 1993 Taxable Values and Tax Year 1993 Mill Levies. 16-Nov-93

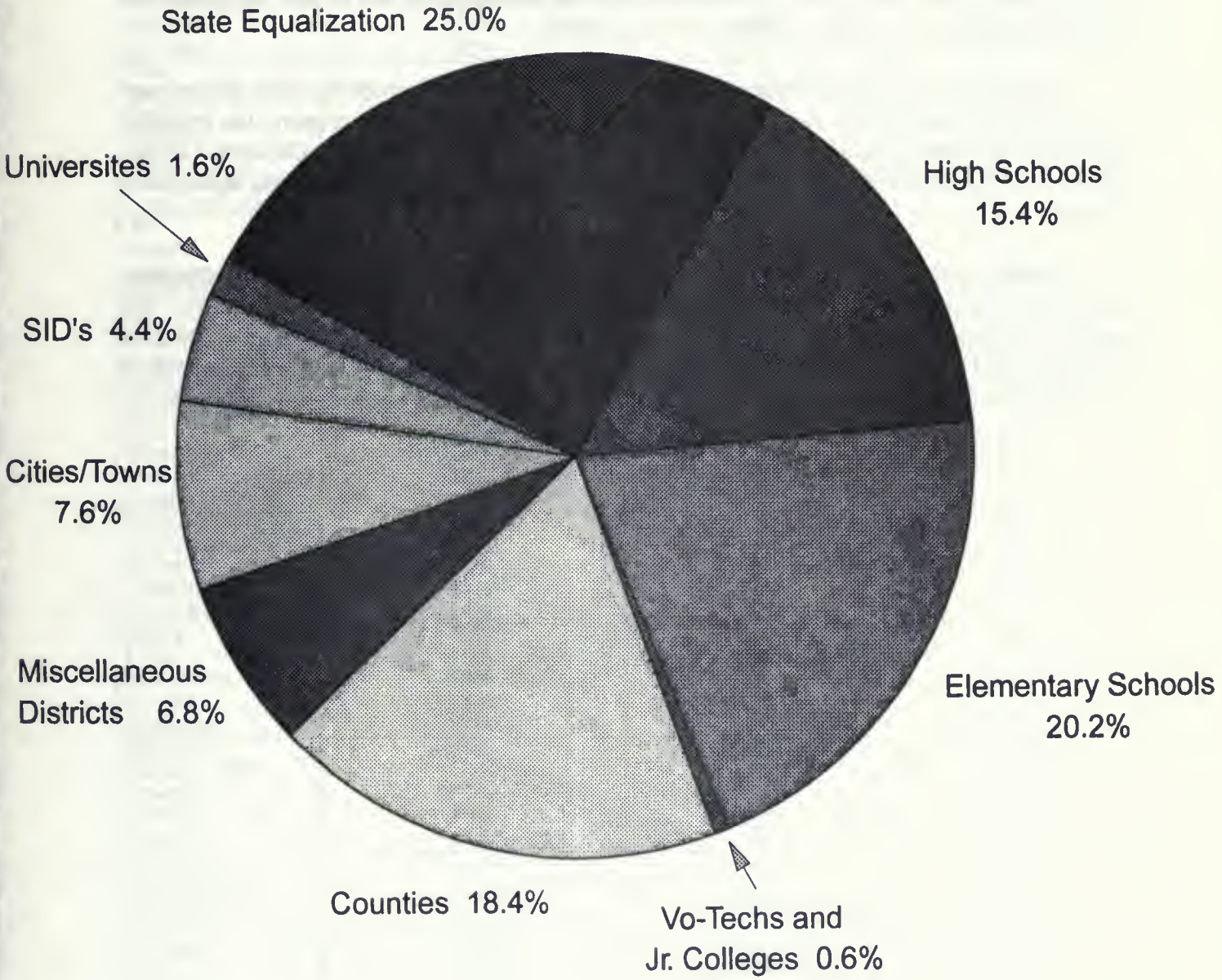
Analysis of Fiscal Year 1994 Tax Base

Percent of Statewide Taxable Value in Each Class



Compiled by the Office of Research and Information, Montana Department of Revenue

Property Taxes Levied in Fiscal Year 1994



Compiled by the Office of Research and Information, Montana Department of Revenue

Fiscal 1994 Estimated Property Taxes

Class 4 residential and small local businesses, and class 11 farmsteads, have received a 13.3 percent statewide increase in property taxes. These two classes comprise _ percent of the state's property tax base. The 13.3 percent statewide average does not reflect the significant variation in property tax bills by county, or by taxpayer.

Table 1 shows the percentage change in class 4 and 11 total property value and average mill levy from fiscal 1993 to fiscal 1994, by county. The county average property tax increases range from a 44 percent increase in Granite County to a 16 percent decrease in Chouteau County. There are 24 counties with increases over 10 percent, and 5 counties with decreases in excess of 10 percent.

Table 1 also shows the portion of the estimated property tax increase due to reappraisal, and the portion due to mill levy changes. These impacts vary considerably by county. For example, Mineral County's 40 percent increase is due to a 26 percent increase in reappraisal values and an 11 percent increase in mill levies, while Glacier County's 35 percent increase is due to an 8 percent decrease in reappraisal values and a 57 percent increase in mill levies.

TABLE 1
Estimated Percent Change in Property Taxes for Residential Property
Fiscal 1993 to Fiscal 1994

County	Change in Residential Value Due to Reappraisal	Change in Average Mill Levy	Combined Impact to Residential Taxes
Granite	19%	21%	44%
Mineral	26%	11%	40%
Glacier	-8%	46%	35%
Jefferson	9%	19%	29%
Wibaux	3%	23%	27%
Broadwater	-13%	42%	24%
Lake	27%	-4%	22%
Beaverhead	16%	4%	21%
Sanders	15%	5%	20%
Richland	8%	11%	20%
Fallon	1%	17%	19%
Meagher	7%	8%	16%
Flathead	16%	-1%	15%
Stillwater	8%	6%	14%
Ravalli	9%	4%	14%
Deer Lodge	5%	8%	13%
Lewis And Clark	9%	4%	13%
Hill	2%	11%	13%
Lincoln	7%	6%	13%
Phillips	-1%	14%	13%
Missoula	5%	7%	12%
Powell	11%	1%	12%
Roosevelt	-7%	20%	11%
Custer	13%	-2%	11%
Yellowstone	8%	2%	10%
Gallatin	12%	-2%	9%
Park	2%	6%	8%
Silver Bow	15%	-6%	7%
Carbon	2%	5%	7%
Powder River	-8%	15%	6%
Valley	1%	4%	6%
Cascade	7%	-3%	4%
Madison	5%	-3%	2%
Treasure	-17%	22%	2%
Judith Basin	-14%	16%	0%
Blaine	0%	-1%	-1%
Toole	-10%	9%	-2%
Wheatland	-10%	9%	-2%
Fergus	-4%	2%	-2%
Sheridan	-11%	10%	-2%
Pondera	-14%	12%	-4%
Golden Valley	-10%	6%	-5%
Dawson	-11%	6%	-6%
Prairie	-19%	15%	-6%
Carter	-11%	5%	-7%
Mccone	-12%	5%	-7%
Petroleum	-1%	-7%	-8%
Sweet Grass	-21%	16%	-8%
Daniels	-16%	8%	-9%
Garfield	-7%	-3%	-10%
Teton	-17%	9%	-10%
Big Horn	-3%	-8%	-11%
Musselshell	-16%	5%	-11%
Rosebud	-15%	4%	-12%
Liberty	-25%	15%	-15%
Chouteau	-16%	1%	-16%
STATEWIDE	7.3%	5.6%	13.3%

Table 2 shows total property taxes levied at each level of government, and the percent of total property taxes by each government level, for fiscal 1993 and 1994. Property taxes collected in fiscal 1993 are estimated to be $589 million. In fiscal 1994, property taxes are estimated to be $656 million. This is an increase of $67 million or 11 percent between fiscal 1993 and fiscal 1994. Statewide taxable valuation increased 6 percent. In general, if the percent change in total taxes from fiscal 1993 to fiscal 1994 is less than 6 percent, then mill levies decreased. If the percent change is greater than 6 percent, then mill levies increased. On average, county and city mill levies decreased, but are still generating more revenue than in fiscal 1993. State mill levies remained the same, generating an increase in property tax revenue proportional to the increase in total statewide taxable valuation. Local school property taxes increased approximately 22 percent. Some school mill levies changed in response to HB 667, legislation equalizing school funding.

TABLE 2
Comparison of Property Taxes Levied
Fiscal 1993 to Fiscal 1994

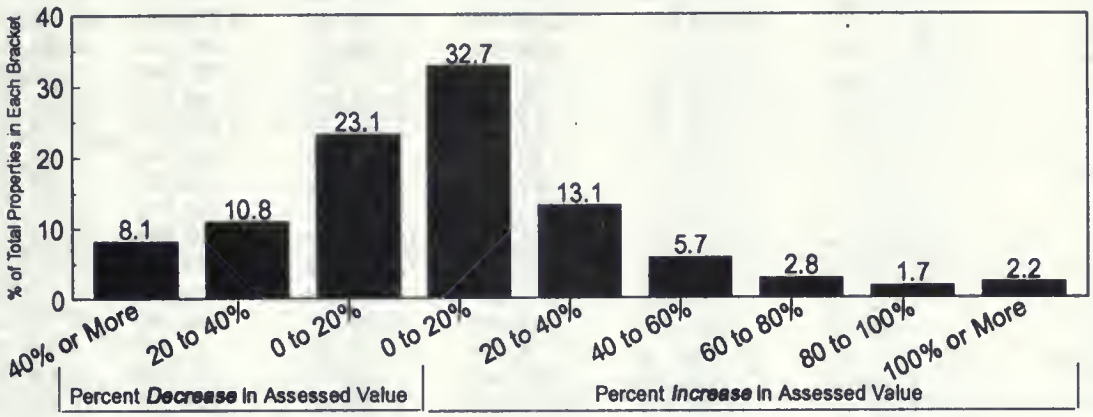
	Fiscal 1993		*Fiscal 1994*		
	Total Taxes	Percent of Total	Total Taxes	Percent of Total	Percent Change From 93 to 94
County Government	116,516,936	20%	121,024,322	18%	4%
Cities/Towns	75,157,150	13%	78,657,707	12%	5%
Miscellaneous Districts	37,878,803	6%	44,588,354	7%	18%
State (101 mills)	165,502,051	28%	175,058,114	27%	6%
Local Schools	193,779,758	33%	237,049,185	36%	22%
Grand Total All Taxes	588,834,698		656,377,682		11%

	Fiscal 1993	*Fiscal 1994*	Percent Change
Statewide Taxable Value	1,632,622,989	1,731,947,504	6%

The statewide average increase of 11 percent in property tax does not illustrate what is happening to individual residential taxpayers. Graph 1 shows the distribution of residential property by the percent change in *appraised value*. As shown on the graph, 18.9 percent had **decreases** over 20 percent, 25.5 percent had **increases** greater than 20 percent, and twelve percent of residences had increases greater than 40 percent.

Graph 1

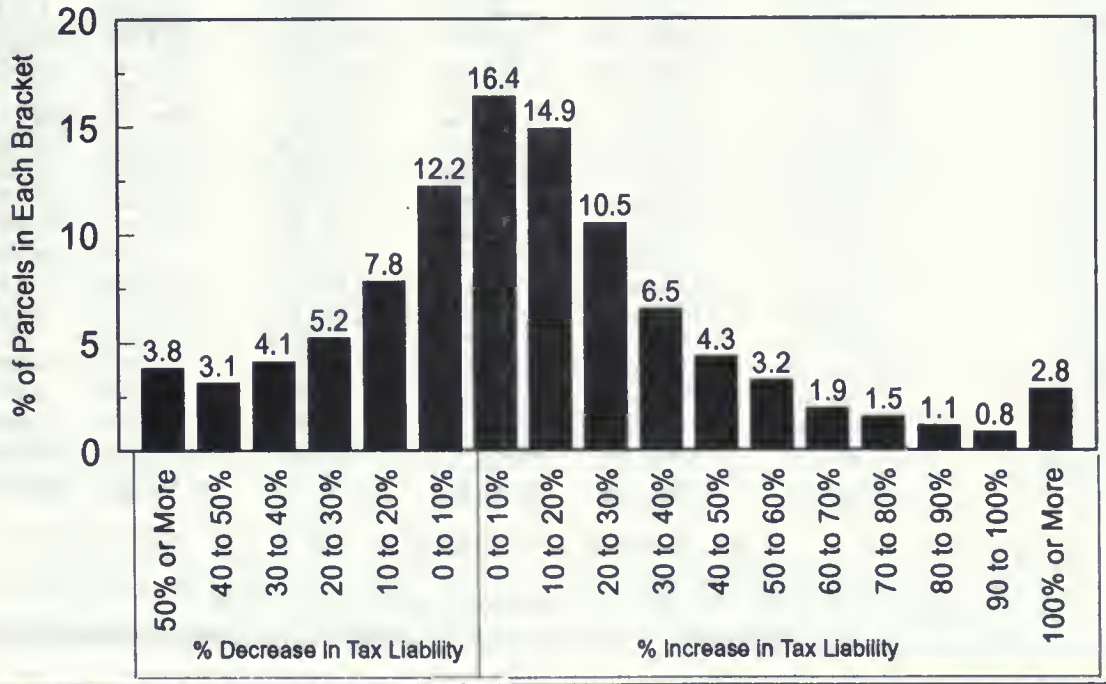
Impact of Reappraisal on Residential Property
Distribution of Households by Percent Change in Appraisal Value



Graph 2 shows what percent of all residential properties (excluding vacant land) received a specific percentage increase in *tax liability*. For example, 16.4 percent of all residential properties received a tax increase of between zero and 10 percent; 14.9 percent received an increase of between 10 and 20 percent, etc. As the graph shows, 36.2 percent of all properties received a tax decrease, while 63.8 percent received a tax increase.

Graph 2

Percent Change in Property Tax Liability
Fiscal Year 1993 to 1994, Residential Property



Total Taxes Levied - Fiscal Year 1994 State, Counties, and Schools

County	State Government	County Government	Cities/Towns	School Districts **	SID's, Fire and Miscellaneous Districts	Total
Beaverhead	1,700,945	1,449,453	323,741	2,467,646	538,772	6,480,557
Big Horn	2,794,178	899,537	267,830	1,488,535	516,240	5,966,319
Blaine	1,403,181	910,232	315,029	1,158,214	1,073,051	4,859,707
Broadwater	1,151,136	736,382	122,218	1,337,793	517,251	3,864,781
Carbon	1,904,936	1,227,854	456,376	2,490,673	760,226	6,840,065
Carter	704,292	680,224	36,688	609,780	95,790	2,126,775
Cascade	10,511,003	8,948,029	6,213,882	17,135,142	5,328,090	48,136,146
Chouteau	2,495,962	2,233,170	239,050	3,153,407	946,719	9,068,308
Custer	1,550,456	1,282,763	913,289	2,855,829	1,081,948	7,684,285
Daniels	622,060	669,391	95,410	1,124,803	42,933	2,554,599
Dawson	1,758,988	1,696,325	757,907	2,776,397	1,050,344	8,039,961
Deer Lodge	965,302	1,602,379	53,099	1,446,955	1,042,746	5,110,480
Fallon	1,038,143	493,347	187,752	1,096,552	130,193	2,945,987
Fergus	2,270,170	1,713,476	759,515	3,573,644	448,472	8,765,276
Flathead	11,970,556	10,717,615	3,000,699	18,544,714	5,308,961	49,542,544
Gallatin	9,080,396	5,144,620	4,084,235	12,576,418	2,547,785	33,433,454
Garfield	552,425	651,883	17,577	474,814	113,886	1,810,584
Glacier	1,966,736	1,809,622	338,687	3,230,174	363,849	7,709,067
Golden Valley	521,679	292,618	16,654	617,380	21,461	1,469,792
Granite	846,940	822,536	120,442	820,618	199,926	2,810,463
Hill	3,089,359	2,047,922	1,176,335	4,268,049	1,679,233	12,260,898
Jefferson	2,486,344	1,500,828	153,402	3,186,858	187,961	7,515,393
Judith Basin	889,591	762,356	40,402	1,227,887	67,088	2,987,325
Lake	4,027,365	2,971,575	514,441	4,880,063	3,575,551	15,968,996
Lewis And Clark	7,711,105	5,546,771	3,461,878	15,425,616	4,704,924	36,850,294
Liberty	942,243	847,571	53,144	1,022,110	210,384	3,075,452
Lincoln	2,872,503	1,269,358	330,407	3,741,638	1,060,892	9,274,798
Madison	2,287,372	1,482,192	180,117	2,418,837	993,712	7,362,230
Mccone	803,047	925,621	98,793	747,947	41,732	2,617,140
Meagher	872,052	672,715	72,708	877,116	85,159	2,579,750
Mineral	894,780	694,583	89,195	1,445,088	111,034	3,234,680
Missoula	13,833,770	11,950,442	8,746,229	28,657,056	5,048,624	68,236,120
Musselshell	695,963	645,825	122,822	795,479	105,780	2,365,868
Park	2,670,898	1,531,629	988,405	3,910,397	832,980	9,934,309
Petroleum	219,837	129,167	10,893	308,762	2,681	671,340
Phillips	2,022,512	909,900	265,763	2,100,412	1,018,651	6,317,238
Pondera	1,493,140	1,360,231	282,185	2,126,200	386,552	5,648,308
Powder River	626,117	960,870	52,595	1,026,151	93,560	2,759,293
Powell	1,306,255	808,729	182,474	1,454,215	339,533	4,091,206
Prairie	441,577	500,416	58,713	416,797	396,869	1,814,372
Ravalli	3,736,056	2,875,159	661,483	4,998,589	1,272,618	13,543,906
Richland	2,206,002	1,311,344	569,148	2,828,414	1,315,121	8,230,028
Roosevelt	2,594,626	1,874,094	310,201	2,973,031	562,037	8,313,989
Rosebud	18,321,856	2,928,863	220,244	5,160,148	2,081,375	28,712,487
Sanders	2,658,876	1,752,416	255,792	2,990,695	1,133,160	8,790,938
Sheridan	1,171,445	731,416	287,702	1,441,720	108,397	3,740,679
Silver Bow	5,560,030	6,654,490	16,696	11,716,812	5,488,046	29,436,074
Stillwater	2,072,004	1,488,083	286,410	2,494,865	542,223	6,883,586
Sweet Grass	814,086	699,065	150,174	1,258,611	61,927	2,983,863
Teton	1,503,171	1,500,947	195,014	2,292,059	1,643,165	7,134,357
Toole	1,812,398	1,533,806	400,491	1,476,835	264,070	5,487,600
Treasure	472,823	377,015	24,566	638,673	44,485	1,557,563
Valley	2,651,955	1,658,939	556,612	4,201,642	789,912	9,859,061
Wheatland	788,212	646,445	85,987	883,422	37,443	2,441,508
Wibaux	416,489	691,977	50,557	161,522	49,560	1,370,104
Yellowstone	22,282,771	12,800,107	10,782,435	32,515,981	14,726,485	93,107,779
Total	**175,058,114**	**121,024,322**	**50,054,495**	**237,049,185**	**73,191,587**	**656,377,683**

* Includes mills not levied against city/town residents (eg. road fund).

** Value listed is the county average school levy.

Compiled by the Office of Research and Information, Montana Department of Revenue

Mill Levies - Fiscal Year 1994 State, Counties, and Schools

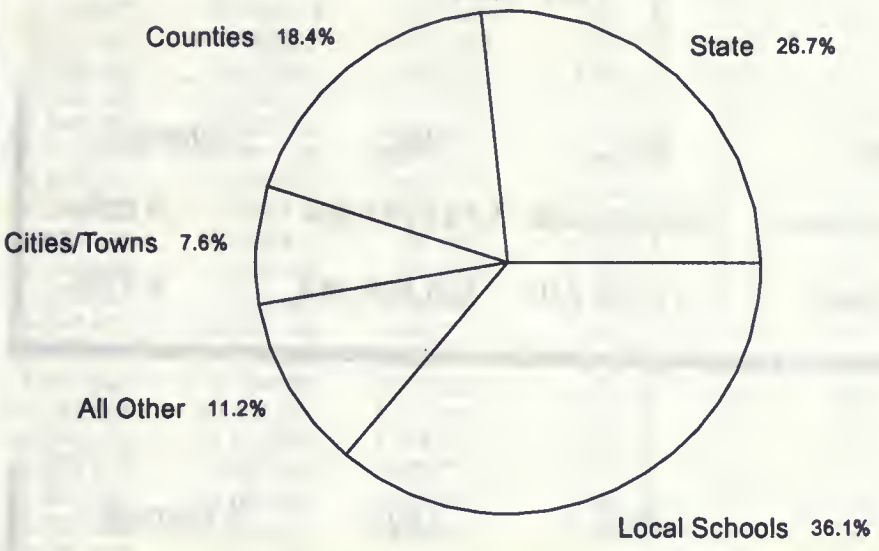
County	University System	School Equalization	County *	School Districts **	Total
Beaverhead	6.00	95.00	89.45	149.35	339.80
Big Horn	6.00	95.00	31.06	54.11	186.17
Blaine	6.00	95.00	67.12	83.88	252.00
Broadwater	6.00	95.00	68.58	124.43	294.01
Carbon	6.00	95.00	69.41	133.45	303.86
Carter	6.00	95.00	98.50	87.55	287.05
Cascade	6.00	95.00	97.86	164.32	363.18
Chouteau	6.00	95.00	92.30	129.28	322.58
Custer	6.00	95.00	93.52	186.04	380.56
Daniels	6.00	95.00	112.79	185.45	399.24
Dawson	6.00	95.00	103.82	168.66	373.48
Deer Lodge	6.00	95.00	169.00	156.27	426.27
Fallon	6.00	95.00	49.97	109.83	260.80
Fergus	6.00	95.00	80.45	162.80	344.25
Flathead	6.00	95.00	95.08	158.64	354.71
Gallatin	6.00	95.00	63.27	140.47	304.74
Garfield	6.00	95.00	121.89	88.60	311.49
Glacier	6.00	95.00	98.38	174.97	374.35
Golden Valley	6.00	95.00	58.53	121.54	281.07
Granite	6.00	95.00	102.46	101.53	304.99
Hill	6.00	95.00	73.57	141.77	316.34
Jefferson	6.00	95.00	61.77	130.43	293.20
Judith Basin	6.00	95.00	88.37	143.92	333.29
Lake	6.00	95.00	76.57	123.73	301.29
Lewis And Clark	6.00	95.00	80.98	203.73	385.71
Liberty	6.00	95.00	91.91	112.41	305.32
Lincoln	6.00	95.00	45.40	135.07	281.47
Madison	6.00	95.00	65.47	107.95	274.42
Mccone	6.00	95.00	117.84	98.04	316.88
Meagher	6.00	95.00	80.52	102.65	284.17
Mineral	6.00	95.00	81.87	168.66	351.53
Missoula	6.00	95.00	94.12	213.01	408.13
Musselshell	6.00	95.00	103.79	120.47	325.26
Park	6.00	95.00	63.53	154.83	319.36
Petroleum	6.00	95.00	57.55	140.74	299.29
Phillips	6.00	95.00	47.76	109.08	257.84
Pondera	6.00	95.00	97.20	145.44	343.64
Powder River	6.00	95.00	158.48	169.75	429.23
Powell	6.00	95.00	66.75	114.81	282.56
Prairie	6.00	95.00	117.66	101.68	320.34
Ravalli	6.00	95.00	80.51	137.15	318.66
Richland	6.00	95.00	64.85	136.06	301.91
Roosevelt	6.00	95.00	75.73	118.79	295.52
Rosebud	6.00	95.00	16.29	28.48	145.76
Sanders	6.00	95.00	67.98	115.12	284.10
Sheridan	6.00	95.00	65.12	125.33	291.45
Silver Bow	6.00	95.00	120.78	211.17	432.95
Stillwater	6.00	95.00	75.43	122.38	298.81
Sweet Grass	6.00	95.00	91.58	158.81	351.38
Teton	6.00	95.00	105.55	155.43	361.98
Toole	6.00	95.00	86.64	85.14	272.78
Treasure	6.00	95.00	82.05	140.42	323.47
Valley	6.00	95.00	66.21	160.83	328.04
Wheatland	6.00	95.00	84.50	114.83	300.33
Wibaux	6.00	95.00	174.55	40.15	315.70
Yellowstone	6.00	95.00	68.37	152.72	322.09

* Includes mills not levied against city/town residents (eg. road fund).
** Value listed is the county average school levy.
Compiled by the Office of Research and Information, Montana Department of Revenue

MILL LEVY

CHANGES

Fiscal 1994 Distribution of Property Taxes



Change In Taxes Levied

	Fiscal 1993	Fiscal 1994	% Change
State (101 Mills)	165,502,051	175,058,114	5.77%
Counties	116,516,936	121,024,322	3.87%
Cities/Towns	47,277,275	50,054,495	5.87%
All Others	65,758,678	73,191,567	11.30%
Local Schools	193,779,758	237,049,185	22.33%
TOTAL	588,834,698	656,377,683	11.47%

Change in Taxable Value and Total Taxes
Counties and Cities/Towns
1992- 1993

Counties	1992	1993	% Change
Taxable Value	1,632,622,989	1,731,947,504	6.08%
Total Taxes	117,606,740	125,495,289	6.71%

Cities	1992	1993	% Change
Taxable Value	435,998,336	475,875,249	9.15%
Total Taxes	44,614,915	47,974,191	7.53%

Taxable Valuation and Mill Levies for County Governments

Fiscal Years 1993 and 1994

County	1992 Taxable Valuation	1993 Taxable Valuation	Change in Taxable Valuation	% Change in Taxable Valuation	1992 Mill Levy	1993 Mill Levy	Change in Mill Levy	% Change in Mill Levy
Beaverhead	15,922,182	16,824,259	902,077	5.7%	89.45	89.45	0.00	0.0%
Big Horn	26,681,354	27,564,305	882,951	3.3%	62.64	31.06	-31.58	-50.4%
Blaine	13,892,940	13,923,422	30,482	0.2%	74.19	67.12	-7.07	-9.5%
Broadwater	14,226,141	11,002,036	(3,224,105)	-22.7%	68.01	68.58	0.57	0.8%
Carbon	17,903,295	18,842,455	939,160	5.2%	76.63	69.41	-7.22	-9.4%
Carter	7,357,469	7,061,143	(296,326)	-4.0%	94.87	98.50	3.63	3.8%
Cascade	95,846,935	104,782,782	8,935,847	9.3%	93.92	97.86	3.94	4.2%
Chouteau	25,358,497	24,726,163	(632,334)	-2.5%	90.30	92.30	2.00	2.2%
Custer	14,584,111	15,393,437	809,326	5.5%	95.99	93.52	-2.47	-2.6%
Daniels	6,294,803	6,159,014	(135,789)	-2.2%	109.65	112.79	3.14	2.9%
Dawson	18,257,665	17,389,666	(867,999)	-4.8%	102.61	103.82	1.21	1.2%
Deer Lodge	8,769,899	9,523,950	754,051	8.6%	169.83	169.00	-0.83	-0.5%
Fallon	10,278,478	10,284,372	5,894	0.1%	46.48	49.97	3.49	7.5%
Fergus	21,943,967	22,363,816	419,849	1.9%	80.95	80.45	-0.50	-0.6%
Flathead	103,059,904	124,331,036	21,271,132	20.6%	100.08	95.08	-5.00	-5.0%
Gallatin	80,995,369	90,899,873	9,904,504	12.2%	67.65	63.27	-4.38	-6.5%
Garfield	5,393,469	5,467,114	73,645	1.4%	111.85	121.89	10.04	9.0%
Glacier	19,630,260	19,536,875	(93,385)	-0.5%	78.52	98.38	19.86	25.3%
Golden Valley	5,153,869	5,089,308	(64,561)	-1.3%	55.02	58.53	3.51	6.4%
Granite	7,655,867	8,278,493	622,626	8.1%	92.46	102.46	10.00	10.8%
Hill	29,941,411	30,731,188	789,777	2.6%	73.53	73.57	0.04	0.1%
Jefferson	23,342,749	24,570,652	1,227,903	5.3%	54.74	61.77	7.03	12.8%
Judith Basin	8,952,652	8,799,568	(153,084)	-1.7%	86.48	88.37	1.89	2.2%
Lake	31,437,674	40,145,274	8,707,600	27.7%	76.14	76.57	0.42	0.6%
Lewis and Clark	69,016,382	76,092,840	7,076,458	10.3%	89.00	80.98	-8.02	-9.0%
Liberty	9,568,354	9,247,634	(320,720)	-3.4%	88.71	91.91	3.20	3.6%
Lincoln	27,564,167	28,051,639	487,472	1.8%	44.16	45.40	1.24	2.8%
Madison	20,791,628	22,824,457	2,032,829	9.8%	91.76	65.47	-26.29	-28.7%
Mccone	7,801,726	7,991,637	189,911	2.4%	122.49	117.84	-4.65	-3.8%
Meagher	8,154,786	8,539,186	384,400	4.7%	80.85	80.52	-0.33	-0.4%
Mineral	8,080,300	8,722,974	642,674	8.0%	53.92	81.87	27.95	51.8%
Missoula	126,303,291	136,040,464	9,737,173	7.7%	98.27	94.12	-4.15	-4.2%
Musselshell	6,878,626	6,876,934	(1,692)	-0.0%	89.35	103.79	14.44	16.2%
Park	24,316,869	25,640,034	1,323,165	5.4%	66.14	63.53	-2.61	-3.9%
Petroleum	1,904,786	2,049,260	144,474	7.6%	83.50	57.55	-25.95	-31.1%
Phillips	20,295,327	19,865,693	(429,634)	-2.1%	43.63	47.76	4.13	9.5%
Pondera	14,988,037	14,795,008	(193,029)	-1.3%	84.22	97.20	12.98	15.4%
Powder River	6,368,160	6,171,957	(196,203)	-3.1%	151.15	158.48	7.33	4.8%
Powell	12,458,281	12,717,393	259,112	2.1%	67.75	66.75	-1.00	-1.5%
Prairie	4,358,142	4,343,655	(14,487)	-0.3%	112.78	117.66	4.88	4.3%
Ravalli	32,043,712	36,729,910	4,686,198	14.6%	80.09	80.51	0.42	0.5%
Richland	21,745,758	21,841,600	95,842	0.4%	64.98	64.85	-0.13	-0.2%
Roosevelt	24,801,194	25,696,726	895,532	3.6%	63.60	75.73	12.13	19.1%
Rosebud	182,854,693	180,478,702	(2,375,991)	-1.3%	17.78	16.29	-1.49	-8.4%
Sanders	24,882,163	26,034,477	1,152,314	4.6%	72.14	67.98	-4.16	-5.8%
Sheridan	12,018,054	11,592,301	(425,753)	-3.5%	57.86	65.12	7.26	12.5%
Silver Bow	50,333,573	55,019,600	4,686,027	9.3%	125.25	120.78	-4.47	-3.6%
Stillwater	19,753,669	20,530,912	777,243	3.9%	75.43	75.43	0.00	0.0%
Sweet Grass	8,288,052	8,092,898	(195,154)	-2.4%	87.34	91.58	4.23	4.8%
Teton	15,427,359	14,882,549	(544,810)	-3.5%	93.01	105.55	12.54	13.5%
Toole	17,683,716	17,944,539	260,823	1.5%	98.39	86.64	-11.75	-11.9%
Treasure	4,983,890	4,679,507	(304,383)	-6.1%	76.10	82.05	5.95	7.8%
Valley	25,737,184	26,539,206	802,022	3.1%	66.63	66.21	-0.42	-0.6%
Wheatland	7,780,858	7,797,839	16,981	0.2%	84.50	84.50	0.00	0.0%
Wibaux	4,073,266	4,124,135	50,869	1.2%	135.84	174.55	38.71	28.5%
Yellowstone	198,486,026	216,301,637	17,815,611	9.0%	76.76	68.37	-8.39	-10.9%
Total	1,632,622,989	1,731,947,504	99,324,515	6.1%				

Taxable Valuation and Mill Levies for City/Town Governments
Fiscal Years 1993 and 1994

CITIES/TOWNS	1993 TAXABLE VALUATION (dollars)	1994 TAXABLE VALUATION (dollars)	CHANGE IN TAXABLE VALUATION (dollars)	% CHANGE IN TAXABLE VALUATION	1993 MILL LEVY	1994 MILL LEVY	CHANGE IN MILL LEVY	% CHANGE IN MILL LEVY
Billings	113,755,504	121,033,667	7,278,163	6.4%	84.000	84.000	0.000	0.0%
Bozeman	28,169,637	31,310,293	3,140,656	11.1%	118.890	108.880	-10.010	-8.4%
Butte-Silver Bow	50,333,573	55,027,530	4,693,957	9.3%	113.250	111.780	-1.470	-1.3%
Columbia Falls	3,436,309	4,195,692	759,383	22.1%	119.410	98.862	-20.548	-17.2%
Dillon	3,513,571	3,792,142	278,571	7.9%	88.360	77.420	-10.940	-12.4%
Glasgow	3,322,542	3,400,066	77,524	2.3%	149.330	145.430	-3.900	-2.6%
Glendive	5,754,712	5,151,280	(603,432)	-10.5%	130.660	145.920	15.260	11.7%
Great Falls	62,871,199	68,383,445	5,512,246	8.8%	91.960	88.850	-3.110	-3.4%
Hamilton	4,304,177	5,089,040	784,863	18.2%	98.990	89.920	-9.070	-9.2%
Havre	9,002,545	9,973,681	971,136	10.8%	119.041	116.985	-2.056	-1.7%
Helena	36,496,758	40,875,515	4,378,757	12.0%	77.360	77.360	0.000	0.0%
Kalispell	19,461,703	18,760,094	(701,609)	-3.6%	114.220	107.000	-7.220	-6.3%
Lewistown	4,952,593	5,242,576	289,983	5.9%	135.200	137.060	1.860	1.4%
Libby	3,096,662	3,011,798	(84,864)	-2.7%	66.100	66.100	0.000	0.0%
Miles City	6,594,736	7,154,579	559,843	8.5%	135.790	126.810	-8.980	-6.6%
Missoula	59,612,835	64,868,891	5,256,056	8.8%	131.910	135.060	3.150	2.4%
Polson	3,674,024	4,151,483	477,459	13.0%	89.730	84.000	-5.730	-6.4%
Roundup	1,521,079	1,531,146	10,067	0.7%	73.000	72.000	-1.000	-1.4%
Shelby	2,417,089	2,729,591	312,502	12.9%	134.870	131.620	-3.250	-2.4%
Sidney	4,473,659	4,701,256	227,597	5.1%	109.000	107.000	-2.000	-1.8%
Whitefish	7,458,883	7,188,393	(270,490)	-3.6%	88.250	78.250	-10.000	-11.3%
Wolf Point	1,774,545	1,909,043	134,498	7.6%	95.610	95.610	0.000	0.0%
TOTAL	435,998,336	469,481,201	33,482,865	7.7%				

Possible Impact of Additional Reappraisal Revenue on Statewide Mills

The official revenue estimates from the 1993 Legislative Session (HJR3) provided a statewide taxable valuation of $1,639,449,000. This figure did not include any adjustment for potential impacts of reappraisal. Based on this taxable value figure, revenue available for the school foundation program (95 mills) and the university system (6 mills) is calculated as follows:

Foundation Program	University System	Total Revenue
$ 1,639,449,000	$ 1,639,449,000	$1,639,449,000
X .095	X .006	X .101
$ 155,747,655	$ 9,836,694	$ 165,584,349

The Department estimates that reappraisal acted to increase the HJR3 estimate of statewide TV by $45,252,000 to a total of $1,684,701,000. This results in additional state revenue of $4,570,452 divided as follows:

Increase in Taxable Valuation	$45,252,000
Total State-Level Mills	.101
Additional Revenue	$ 4,570,452

This additional revenue could be used reduce the 101 state-mandated mill levies to a level of about 98.287 mills:

HJR3 Current Revenue Requirement / Revised Taxable Valuation = Revised Levy

$165,584,349 / $1,684,701,000 = 98.287 mills

If the reduction were proportionally split betwen the school foundation program and the university system on the basis of their respective mill levies, then the university levy could be reduced to 5.839 mills, and the foundation program levy could be reduced to 92.448 mills. There would be no change in funding for either the foundation program or the university system from HJR3, and the annual tax savings on a $50,000 home would be $5.24.

Change in Taxable Value and Mills
Selected School Districts, Tax Years 1992-93

	Taxable Value				Mills			
Flathead County	1992	1993	Change	% Change	1992	1993	Change	% Change
Kalispell Elem	26,565,238	31,156,616	4,591,378	17.28%	65.21	74.31	9.10	13.95%
Columbia Falls Elem	18,145,819	20,833,697	2,687,878	14.81%	65.49	78.92	13.43	20.51%
Big Fork Elem	9,441,201	13,635,332	4,194,131	44.42%	62.66	67.29	4.63	7.39%
Whitefish Elem	17,316,085	21,083,151	3,767,066	21.75%	42.00	62.74	20.74	49.38%
Flathead HS	52,103,673	61,981,355	9,877,682	18.96%	47.86	44.09	(3.77)	-7.88%
Choteau County (Prelim.)								
Fort Benton Elem	5,808,732	5,751,861	(56,871)	-0.98%	66.88	77.33	10.45	15.63%
Big Sandy Elem	6,743,408	6,609,442	(133,966)	-1.99%	44.91	54.43	9.52	21.20%
Highwood Elem	2,312,118	2,221,651	(90,467)	-3.91%	97.02	143.44	46.42	47.85%
Geraldine Elem	3,877,349	3,717,747	(159,602)	-4.12%	21.06	72.17	51.11	242.69%
Fort Benton HS	10,330,013	10,113,710	(216,303)	-2.09%	38.86	39.57	0.71	1.83%
Phillips County								
Dodson Elem	1,567,126	1,567,697	571	0.04%	33.42	69.91	36.49	109.19%
Malta Elem	8,351,784	7,482,367	(869,417)	-10.41%	44.97	71.47	26.50	58.93%
Saco Elem	3,992,111	3,561,277	(430,834)	-10.79%	23.11	43.60	20.49	88.66%
Landusky Elem	2,654,914	3,087,176	432,262	16.28%	3.00	28.09	25.09	836.33%
Malta HS	9,256,470	8,369,084	(887,386)	-9.59%	19.24	33.86	14.62	75.99%

Change in Taxable Value and Mill Levies, 1992 - 1993

By Budget Category

District	Taxable Value				Mill Levy			
	1992	1993	Difference	Percent Difference	1992	1993	Difference	Percent Difference
Districts Below 80% Of Maximum Budget								
Pryor Elem	643,719	671,911	28,192	4.38%	79.26	68.68	(10.58)	-13.35%
Red Lodge Elem	5,773,117	6,233,295	460,178	7.97%	52.88	65.35	12.47	23.58%
Bigfork Elem	9,441,201	13,635,332	4,194,131	44.42%	62.66	67.29	4.63	7.39%
Belgrade H S	10,664,665	11,543,864	879,199	8.24%	40.97	43.05	2.08	5.08%
Havre H S	19,888,398	20,856,711	968,313	4.87%	7.87	21.67	13.80	175.35%
Polson H S	17,564,692	19,121,695	1,557,003	8.86%	21.25	24.63	3.38	15.89%
Hamilton Elem	10,717,502	12,289,911	1,572,409	14.67%	67.35	86.93	19.58	29.07%
Fairfield H S	3,070,305	2,966,914	(103,391)	-3.37%	31.27	43.19	11.92	38.12%
Canyon Crk Elem	1,908,896	1,979,139	70,243	3.68%	96.73	96.86	0.13	0.13%
Billings H S	156,740,834	170,018,580	13,277,746	8.47%	37.70	48.03	10.33	27.40%
Districts Between 80 and 100% Of Maximum Budget								
Great Falls H S	78,136,268	85,026,601	6,890,333	8.82%	60.92	50.69	(10.23)	-16.79%
Batavia Elem	892,350	1,074,488	182,138	20.41%	52.66	62.12	9.46	17.96%
Evergreen Elem	5,677,287	6,729,278	1,051,991	18.53%	86.02	79.92	(6.10)	-7.09%
Bozeman H S	55,293,794	62,557,196	7,263,402	13.14%	36.66	37.47	0.81	2.21%
Jordan Elem	1,758,309	1,745,326	(12,983)	-0.74%	35.24	19.26	(15.98)	-45.35%
Geyser Elem	1,456,645	1,424,342	(32,303)	-2.22%	33.46	76.55	43.09	128.78%
Sidney Elem	11,658,860	13,213,943	1,555,083	13.34%	53.64	76.64	23.00	42.88%
Big Timber Elem	4,385,699	4,319,969	(65,730)	-1.50%	44.98	65.22	20.24	45.00%
Dutton Elem	3,888,631	3,744,189	(144,442)	-3.71%	43.01	64.36	21.35	49.64%
Fairfield Elem	1,979,531	1,952,864	(26,667)	-1.35%	79.88	81.09	1.21	1.51%
Districts Over 100% Of Maximum Budget								
Baker H S	7,337,916	7,260,271	(77,645)	-1.06%	10.63	56.74	46.11	433.77%
Cut Bank H S	13,253,509	12,977,775	(275,734)	-2.08%	27.93	42.86	14.93	53.46%
J-I Elem	3,988,430	3,868,598	(119,832)	-3.00%	36.12	73.33	37.21	103.02%
Powder Rvr Co Dist Hs	6,459,517	6,171,957	(287,560)	-4.45%	44.48	70.04	25.56	57.46%
Fairview H S	3,980,443	3,846,385	(134,058)	-3.37%	4.39	13.06	8.67	197.49%
Colstrip H S	172,187,012	170,258,799	(1,928,213)	-1.12%	32.88	28.92	(3.96)	-12.04%
Westby H S	1,758,480	1,643,076	(115,404)	-6.56%	16.73	30.51	13.78	82.37%
Medicine Lk El	3,136,802	3,043,767	(93,035)	-2.97%	9.71	29.00	19.29	198.66%
Butte H S	47,764,336	52,451,360	4,687,024	9.81%	85.20	61.33	(23.87)	-28.02%
Glasgow Elem	10,948,933	11,940,174	991,241	9.05%	97.54	93.31	(4.23)	-4.34%

SCHOOL

FOUNDATION

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

MARC RACICOT
GOVERNOR

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September 13, 1993

To: Tax Advisory Council for Property Ownership

From: Curtis Nichols
Office of Budget and Program Planning

Subject: Property tax valuations and public school support

A significant portion of public school revenue comes from property taxes. Property taxes are levied directly by districts and levied by the state and county for the equalized support of schools. In total nearly $350 million per year of public school funds come from property taxes. The table below summarizes the property taxes by school district fund.

SCHOOL PROPERTY TAXES

FUND	TAXING JURISDICTION
General	District, County, and State
Transportation	District, County and State cost share
Bus depreciation	District
Tuition	District, County
Retirement	County, State equalization
Adult Education	District
Debt Service	District, State equalization
Building Reserve	District

The state levies 40 mills and receives revenue from 55 mills levied by the counties on a statewide basis. The revenues from these taxes are used, along with other state tax revenues and state general fund appropriations, to equalize school district general, transportation, retirement, and debt service fund revenues. The counties levy for a share of 'on schedule' transportation and retirement in addition to the 55 mill statewide equalization levy. The districts levy equalized levies for the general fund and debt service fund and unequalized for all funds except retirement which is funded by the county and state.

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Changes in the way the state assesses or values property which result in changed taxable value will affect schools, and state and county tax collections, school support, and mill levies both directly and indirectly.

Direct effects

The direct effects of changes in valuation impact the taxing jurisdiction by increasing or decreasing collections or allowing the reduction or increase of mill levies. The property tax rates are set annually for most school property taxes. This allows adjustment in the tax rate in response to any change in valuation. School districts are exempt from I-105 provisions as well.

The statewide 95 mill equalization levies, 40 mill state and 55 mill county, are set permanently in statute ie. not set annually. Therefore any change in assessment or valuation which raises or lowers the statewide taxable value of property will increase or reduce the amount collected. These equalization levies are dedicated to the state's school equalization program which is supplemented by state general fund appropriations. All other things being held constant, a decrease in statewide equalization levy revenue will result in increased state general fund cost. Individual taxpayers will experience changes in their tax obligations for these statewide levies directly proportional to the change in taxable value of their property since there is no opportunity to reduce or change the number of mills levied.

Indirect effects

Changes in taxable value may indirectly affect schools by changing the distribution of state guaranteed tax base (GTB) aid. I say indirectly because changes in value in some districts may effect distributions to other districts who see no change in taxable value.

The state guarantees the value of a mill for the general fund in all school districts in the state to be 175 percent of the statewide average. The average is weighted to reflect the number of students enrolled in the district. This GTB applies to amounts up to 40 percent of the district's maximum general fund budget set by statute.

The following example illustrates the operation of the GTB subsidy. This case shows the GTB subsidized portion of the general fund budget of two districts with the same enrollment and spending but differing taxable valuations.

	District A	District B
Guaranteed mill value	$ 12,500	$ 12,500
Actual taxable value	12,500,000	6,250,000
Actual mill value	12,500	6,250
District levy (mills)	20	20
Revenue from district tax	250,000	125,000
GTB subsidy	0	125,000
Total revenue	$250,000	$250,000

If the statewide mill value were increased in this example District A would begin to qualify for a GTB subsidy and the subsidy for District B would increase. This could happen if values rose in districts other than these two which would raise the statewide average without affecting the value of these districts.

A change that would be concentrated in a small number of districts would change the statewide average and at the same time change the district average in those districts experiencing the change. The impact to state costs would depend on the size of the change and the relative value per pupil in the affected districts.

If the prices were rising most rapidly in areas which are currently below average in valuation per pupil the state cost would decline. The affected districts would receive increased tax revenue while their state GTB aid would decline. In the above example this would be a case where the valuation of District B would rise.

If the prices were rising most rapidly in areas which are currently above average in valuation per pupil the state cost would increase. The affected district would receive increased tax revenue. However the reduction in state GTB aid to the affected district would be offset by increased aid to other districts as the statewide average rises relative to lower individual district averages. In the above example this would be a case where the valuation of District A would rise.

Individual tax payers in districts where valuations were rising may experience some reduction in tax rates assuming the district is spending at the maximum GTB level and enrollments do not grow. However this reduction would be dampened by the loss of state GTB aid.

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Nancy Keenan
Superintendent

Summary of House Bill 667

AVERAGE NUMBER BELONGING

Calculation of ANB under HB 667

• For the 1993-1994 school year, the average number belonging (ANB) for each school district is derived from the October 1, 1992 enrollment count as reported on the Fall Report. Pre-kindergarten and full-time special education students are excluded from the ANB calculation and kindergarten students are included as one-half. To calculate ANB, the enrollment count is multiplied by the sum of 180 plus the district's pupil instruction-related (PIR) days. The result is then divided by 180.

• Beginning in the 1994-1995 school year, ANB will be based on the average of two enrollment counts, one on October 1 and a second count on February 1. Full-time special education students will be included in the district's ANB calculation. To calculate ANB, the average of the two enrollment counts is multiplied by the sum of 180 plus the district's pupil instruction-related (PIR) days. The result is then divided by 180.

• House Bill 667 provides for grouping pupils into separate budget units for funding purposes when schools within a district are at least 20 miles apart or when conditions exist that would create an unusual hardship for transporting students to another school.

BASIC ENTITLEMENT AND PER-ANB ENTITLEMENT

ANB count generates basic and per-ANB entitlements

House Bill 667 creates basic and per-ANB entitlements for each school district. The per-ANB entitlement varies based on the total number of ANB in the district. The basic entitlement is a fixed amount of $18,000 for an elementary district and $200,000 for a high school district. When an elementary district has an approved 7th-8th grade program, the district adjusts its basic and per-ANB entitlements to reflect the portion of its ANB funded at the high school funding rates. The basic and per-ANB entitlements, along with the district's special education funding, define the maximum general fund budget that a school district may adopt. The budget building process begins with the calculation of a district's basic and per-ANB entitlements.

Affirmative Action—EEO Employer

Formula for computing *basic entitlement:*

Elementary district: $18,000 x [(K-6 ANB)/(K-8 ANB)] + $200,000 x [(7-8 ANB)/(K-8 ANB)]

High school district: $200,000

Formula for computing *per-ANB entitlement:*

- Elementary districts with 1000 ANB or less:
$3,500 x Elem ANB - [.20 x (Elem ANB/2) x (Elem ANB-1)]

- Elementary districts with greater than 1000 ANB:
$3,400,100 + [(Elem ANB - 1000) x $3,300.20]

- High school districts or accredited 7th-8th grade programs with 800 ANB or less:
$4,900 x HS ANB - [.50 x (HS ANB/2) x (HS ANB - 1)]

- High school districts or accredited 7th-8th grade programs with greater than 800 ANB:
$3,760,200 + [(HS ANB - 800) x $4,500.50]

- An elementary district without an accredited 7th-8th grade program has a *basic entitlement* of $18,000 plus a *per-ANB entitlement* of $3,500 decreased at a rate of $.20 per-ANB for each additional elementary ANB up to 1,000 ANB. For each ANB over 1,000, the district per-ANB entitlement is $3,300.20.

Computation of a district's entitlements

- For an elementary district or K-12 district with an accredited 7th-8th grade program, the *basic entitlement* is $18,000 times the ratio of the K-6 ANB to the total K-8 ANB plus $200,000 times the ratio of the 7-8 ANB to the total K-8 ANB. The *per-ANB entitlement* is $3,500 for each K-6 ANB decreased at a rate of $.20 per-ANB for each additional K-6 ANB up to 1,000 ANB. For each K-6 ANB over 1000, the district per-ANB entitlement is $3,300.20. For 7th-8th grade ANB, the district per-ANB entitlement is $4,900 per-ANB decreased at a rate of $.50 per-ANB for each additional 7th-8th grade ANB up to 800. For each 7th-8th grade ANB over 800, the district per-ANB entitlement is $4,500.50.

- A high school district's *basic entitlement* is $200,000. Its *per-ANB entitlement* is $4,900 decreased at a rate of $.50 per-ANB for each additional high school ANB up to 800 ANB. For each ANB over 800, the district per-ANB entitlement is $4,500.50.

Separate Budget Units

When a school is 20 miles or more from another school of the same district and more than 20 miles beyond the incorporated limits of a city located in the district, the school is funded as a separate budget unit. Separate budget units are established with the approval of the Office of Public Instruction.

Additional budget authority for rural schools

Districts having a school 20 miles or more from another school of the district must budget an additional "basic entitlement." The state pays the first 40% of the addi-

tional entitlement through direct state aid. If the district is eligible for GTB aid, the state will also provide a GTB subsidy for the next 40% of the entitlement.

The provisions in House Bill 667 for separate budget unit status should not be confused with "isolated" elementary schools with 9 or fewer ANB. If a school or district was previously approved for isolation for 1993-94, the isolation status will still apply.

SPECIAL EDUCATION FUNDING

Calculation of special education budget

In addition to its basic and per-ANB entitlements, a district's budget limit is determined by its special education funding needs. A district may include in its general fund budget the special education allowable cost payment that it receives from the state plus an additional 53% of its special education allowable cost payment plus prorated special education cooperative costs. The state will provide GTB aid for that portion of the special education budget up to 40% of the district's special education allowable cost payment plus prorated coop costs. The portion of the budget above 40% and up to 53% of the state special education allowable cost payment is funded from district revenues with no state support. For calculating its budget limits, a district may not include more than 153% of its special education allowable cost payment plus prorated coop costs.

Beginning in 1994-1995, each district will be required to provide $1 of local revenue to match every $3 in allowable special education block grant funding that it receives from the state.

Prior to House Bill 667, if a district received an *increase in its special education allowable cost payment* over the previous year's payment, the district could deposit the increase in the miscellaneous program fund. Beginning in 1993-1994, the full amount of a district's special education allowable cost payment will be deposited in the general fund.

MINIMUM AND MAXIMUM GENERAL FUND BUDGETS

House Bill 667 establishes minimum and maximum general fund budget ranges for each school district based upon the district's basic and per-ANB entitlements and its special education allowable costs. A low-spending school district has 5 years to bring its budget up to the minimum spending level. A district that is presently budgeting in excess of the statutory maximum must freeze its budget at the 1992-1993 budget level.

Definition of minimum and maximum general fund budget

The *minimum* general fund budget, or *BASE budget*, of a district is 80% of the district's basic entitlement, 80% of the district's per-ANB entitlement, and up to 140% of the district's special education allowable cost payment, including prorated coop costs.

The *maximum* general fund budget of a district is the sum of the district's basic entitlement, per-ANB entitlement and up to 153% of special education allowable cost payments, including prorated coop costs.

- If a district's 1992-1993 general fund budget is in excess of its 1993-1994 maximum budget, the district's general fund budget is frozen at its 1992-1993 level.

• The general fund budget of a district with a budget below the minimum must be brought up to the minimum by the 1997-1998 school year.

FUNDING THE GENERAL FUND BUDGET

A district may fund its general fund budget from the following sources:

Sources of funding for general fund budget

a) Direct state aid equal to 40% of the district's basic and per-student entitlement;
b) Special education allowable cost payments from the state;
c) Non-levy revenue and fund balance reappropriated;
d) Local levies subsidized with GTB aid to fund up to 40% of its basic and per-student entitlement and 40% above its special education allowable cost payment; and
e) Local levies with no GTB aid for that portion of the general fund budget above 80% of the basic and per-student entitlement and 140% of allowable special education payments, including pro-rated coop costs, up to the maximum.

Non-levy Revenue

House Bill 667 requires a district to use actual *1991-1992* receipts from non-levy revenue sources to calculate its 1993-1994 general fund levy requirement. The Office of Public Instruction has provided each district with a list of actual receipts from non-levy revenue sources for the 1991-92 school fiscal year. This listing was extracted from the 1991-1992 Trustee Financial Summaries.

1993-1994 budget built with 1991-1992 revenue amounts

Non-levy revenue sources include motor vehicle fees, recreational vehicle fees, out-of-state equipment fees, local government severance taxes and net proceeds taxes paid on oil and gas production, coal gross proceeds taxes, personal property tax reimbursements, corporation license taxes paid by financial institutions, state impact aid, tuition, and investment earnings, and any other non-levy revenue received that year.

Operating and Excess Reserves

10 % operating reserve

At the end of the school fiscal year, a district may reserve a portion of its fund balance as an *operating reserve* for the following school year. The amount reserved may not exceed 10% of the final general fund budget for the following school year. For example, at the end of the 1992-1993 school year, a district may establish an operating reserve up to 10% of its 1993-1994 general fund budget.

Excess reserves

A district may exceed the 10% reserve limit if the source of the *excess reserves* is the unexpended balance of any amount received from a protested tax settlement, tax audit, or delinquent taxes. *Bonus payments* received for consolidation of school districts may also be placed in excess reserves.

Federal impact aid monies are no longer deposited in the district general fund. A district with impact aid monies in its general fund excess reserves must transfer the balance to the newly established Impact Aid Fund. (See the section on Impact Aid Fund Transfer.)

Budget Growth Limits

"Frozen" districts

For a district with a general fund budget above the statutory maximum, the budget is frozen under House Bill 667. Although the budget may not increase, House Bill 667

allows the school board to levy without an election to fund the entire general fund budget in school years 1993-1994 and 1994-1995.

"80% to 100%" districts

For a district with a general fund budget between the 1993-1994 BASE budget level and the maximum, a school board may levy without an election to fund an increase in the general fund budget of a) up to 4% of the 1992-1993 general fund budget, or b) up to 4% of the 1992-1993 general fund budget per-ANB times the 1993-1994 ANB. A district may not increase its general fund budget (overall or per-ANB) by more than 4 percent for the 1993-1994 school year. Beginning for school year 1994-95, a school board may, with voter approval, increase its budget by more than 4%. In no case, may a district that is presently below the maximum budget level adopt a budget that exceeds the maximum general fund budget.

"Below 80%" districts

For a district with a general fund budget below the 1993-1994 BASE budget level, the school board may levy without an election to fund an increase of a) up to 4% of the 1992-1993 general fund budget, b) up to 4% of the 1992-1993 general fund budget per-ANB times the 1993-1994 ANB, or c) 20% of the range between the 1992-1993 budget and the district's 1993-1994 BASE budget level. In order to reach the BASE budget level within five years, a district must increase its budget by at least 20% of the range between the 1992-1993 budget and the 1993-1994 BASE budget level.

Budget Authority vs. Property Tax Levies

Voter approval of spending authority

For fiscal 1995 and thereafter, if a district's general fund budget is below the maximum and school board wishes to increase its district general fund budget by more than 4% of the prior year's general fund budget or general fund budget per-ANB, the board must hold an election for the *additional budget authority* necessary to meet the budget requirements. Prior to House Bill 667, the district only needed to seek voter approval for the portion of the general fund budget funded by property taxes. Under House Bill 667, the district must receive voter approval for the increased spending authority regardless of the source of revenue proposed to fund the higher spending level.
If a district's budget is at or above the maximum, the budget continues to be frozen and, beginning in 1995-1996, voter approval is required for any amount of budget authority in excess of the maximum general fund budget.

GUARANTEED TAX BASE AID

State subsidy for GTB budget area

Each school district receives direct state aid for the first 40% of its basic and per-ANB entitlements. The district may also receive a special education allowable cost payment to fund a portion of the district's special education program. The next 40% of the basic and per-ANB entitlements plus up to 40% above the special education allowable cost payment and prorated coop costs is the *GTB budget area*. The GTB budget area is funded by fund balance reappropriated from the prior year, non-levy revenues (i.e. motor vehicle fees, local government severance taxes, coal gross proceeds, investment earnings, etc.), district property taxes, and state guaranteed tax base aid.

A district is eligible for guaranteed tax base aid if its GTB ratio is less than the statewide elementary or high school GTB ratio.

Statewide elementary and high school GTB ratios

The statewide guaranteed tax base ratio for 1993-1994 is calculated as follows:

175% x Statewide taxable valuation (Tax Year 1992) +
(Total direct state aid + 40% of total special education allowable cost payments)

The statewide GTB ratio is calculated separately for elementary and high school programs.

A district's guaranteed tax base ratio for 1993-1994 is calculated as follows:

District taxable valuation (Tax Year 1992) +
(District direct state aid + 40% of the district's special education allowable cost payments)

Calculation of district subsidy per mill

To calculate a district's GTB subsidy per mill, the Office of Public Instruction uses the following steps:

1) Multiply the state guaranteed tax base ratio for the elementary or high school district by the sum of the district's direct state aid and 40% of its special education allowable cost payment;
2) Subtract the district's taxable valuation; and
3) Divide the result by 1000 to calculate the GTB subsidy per mill.

If a district is eligible for GTB aid, then for every mill levied to fund the GTB budget area, the district will receive a subsidy from the state. A district must fund its budget with funds available for reappropriation and non-levy revenues before it levies property taxes to fund the GTB budget area. (See worksheet on Funding the General Fund Budget.)

DISTRIBUTION OF DIRECT STATE AID AND GTB PAYMENTS

Under House Bill 667, each district receives 10% of its direct state aid payment each month in August through October, December through April, June and July. The July payment will be the last payment for the school year. In November and again in May, eligible districts will receive one-half of their annual guaranteed tax base aid.

State Aid Distribution Schedule

The final foundation program and special education allowable cost payments for the 1992-1993 school year will be sent on July 15, 1993.

The first direct state aid and special education allowable cost payments for the 1993-1994 school year will be sent in August 1993.

State payments to districts

Direct state aid, guaranteed tax base aid, and special education allowable cost payments for 1993-94 will be paid on the following schedule:

	Direct State Aid and Special Education	Guaranteed Tax Base Aid
August 93	10%	
September 93	10%	
October 93	10%	
November 93		50%
December 93	10%	
January 94	10%	
February 94	10%	
March 94	10%	
April 94	10%	
May 94		50%
June 94	10%	
July 94	10%	
Totals	100%	100%

An advice sheet similar to the one sent with the foundation program payments will be sent monthly to each district and county superintendent.

STATE REIMBURSEMENT FOR DEBT SERVICE EXPENDITURES

State aid for debt service payments on bonds sold after July 1, 1991

For the 1993-94 and 1994-95 school years, the state will reimburse districts for a portion of their debt service payments on school bonds sold after July 1, 1991. A district's eligibility for the state reimbursement is determined by the district's mill value per ANB compared to the statewide mill value per ANB. In 1993-1994, a district will set the mill levy necessary to meet its debt service payment as if no reimbursement were available. The Office of Public Instruction will then compute the amount of state reimbursement the district would receive if the state reimbursement were fully funded.

$1 million state appropriation

House Bill 667 limits the school facility entitlement to $220 per elementary ANB, $270 per 7th-8th grade ANB if the district has an approved 7th-8th grade program, and $330 per high school ANB. Therefore, the state reimbursement for debt service payments is limited to the lesser of the district's current year debt service obligation for bonds issued after July 1, 1991 or the district's school facility entitlement. If districts qualify for more state reimbursement than the $1 million appropriation provided in each of fiscal years 1994 and 1995, OPI will pro-rate the distribution of the available funds to the eligible districts. The district will use its state reimbursement for school facilities to reduce the property tax levy for the debt service fund in the next school year.

Pro-ration of state aid to eligible districts

For 1993-1994, the state reimbursement to a district is calculated as follows:

State Share
x Reimbursement Limit for the district
x State Appropriation ÷ Total Costs Eligible for Reimbursement
State Reimbursement to District

Definitions:

State Share= |1- (District mill value per ANB/ Statewide mill value per ANB)|

Reimbursement Limit= the lesser of the district's 1993-1994 debt service obligation or its school facility entitlement

State Appropriation= $1,000,000, for 1993-1994

Total Costs Eligible for Reimbursement= the sum for all districts in the state of the state share times the reimbursement limit for each district

EXPANSION OF SCHOOL BOND DEBT LIMITS

Debt limit increased to 45% of statewide average for low-wealth districts

Prior to HB 667, a district's outstanding indebtedness was limited to 45 percent of the district's taxable valuation. This meant that if two districts had equivalent school enrollments, but one district had twice the taxable valuation of the other, the wealthier district could build a school building that was twice as expensive, presumably twice as nice.

Effective July 1, 1993, a district may, with voter approval, indebt itself up to at least 45 percent of the average statewide taxable valuation per pupil of $17,990 for an elementary district and $45,820 high school district. The state reimbursement for school facilities will help a district meet the higher debt service payments associated with increasing a district's debt limit.

FEDERAL IMPACT AID (P.L. 81-874)

Impact aid fund

Effective July 1, 1993, Federal Impact Aid monies must be accounted for in a new, non-budgeted "Impact Aid Fund," (Fund 26) regardless of the purpose for which the monies will be expended. Unexpended impact aid monies in a district's general fund balance at the close of 1992-1993 must also be transferred to the Impact Aid Fund. (See Impact Aid Fund Transfer worksheet.)

Budget growth calculation for impact aid districts

Federal impact aid received during the 1992-1993 school year is included in a district's 1992-1993 general fund budget for the purposes of calculating permissive budget growth of up to 4%. Actual impact aid receipts received for 1992-1993 must be subtracted from the 1992-1993 general fund budget before comparing it to the 1993-1994 BASE budget for purposes of deciding how a district's budget compares to the minimum/maximum limits.

BUDGET AMENDMENTS

School trustees may pass a resolution to amend a district's budget for reasons provided in section 20-9-161, MCA. These reasons were not changed by HB 667.

Budget amendment for unanticipated enrollment increase

If a school board proposes a budget amendment for an unusual enrollment increase, the trustees must submit a petition to OPI before approving the resolution to adopt a budget amendment. A resolution to adopt a budget amendment for any other legal reason may be approved by the school trustees without OPI approval. A district must meet the public notice requirements provided in 20-9-164, MCA, in any case, and the adopted budget amendment resolution must be sent to the Office of Public Instruction.

ANB and budget adjustments

House Bill 667 authorizes the state superintendent to adjust a district's maximum general fund budget when an increase in ANB is approved. A budget amendment for an unusual enrollment increase may not cause the district's budget to exceed the adjusted maximum budget. Other budget amendments are not subject to the budget limits.

The state will pay additional direct state aid for a portion of a budget amendment for an unusual enrollment increase if a district's ANB increase is greater than 6%. This provision did not change under House Bill 667.

The provision for base-building budget amendments was eliminated by House Bill 667. On-going costs associated with a budget amendment must be included within the regular budget limits in the next school year. Base-building budget amendments previously approved by OPI for the 1992-93 school year may be used for determining the 1993-1994 budget. No base-building amendments will be approved for subsequent years.

ELECTRONIC FUNDS TRANSFER REQUIRED FOR STATE AID

Electronic funds transfer by August 1993

Beginning in August 1993, all payments of direct state aid, special education allowable costs, and guaranteed tax base aid MUST be made by electronic transfer through a bank or using the state's Short-Term Investment Pool (STIP). Paper warrants will no longer be issued.

County treasurers should contact a local bank or the Montana Board of Investments immediately to process the necessary paper work. Processing must be completed by August 1, 1993 to allow electronic payment at the end of August as required by law.

K-12 DISTRICTS

The per-ANB entitlement for a K-12 district must be calculated by applying the funding formulas to the number of K-8 ANB and 9-12 ANB the same as is done for separate elementary and high schools districts.

Pro-rated elementary and high school funding

The BASE budget levy must be prorated based on the ratio of the BASE funding amounts (i.e., direct state aid payments and special education allowable cost payments) for elementary programs to the BASE funding amounts for high school programs. The proration will be used to determine GTB aid separately for the

elementary and high school programs of eligible districts.

The retirement obligations of K-12 districts are funded through the county high school retirement levy. This is not a change from current law.

RELATED TOPICS

The rate used for paying tuition in 1993-94 for pupils who attended school outside of their resident districts in 1992-93 will be calculated the same as in the past. (See ARM 10.10.301.)

HB 469 changes tuition calculations

Under HB 469, tuition paid in 1994-1995 for pupils attending school outside of their resident districts in 1993-94 will be based on a schedule of rates established by OPI for various district size categories. The preliminary rates will be set and distributed by June 30, 1993. (See the summary of HB 469 in the last section of this booklet.)

The funding system for county retirement was not changed by the 1993 legislature. The system for calculating the county mill value and GTB aid for retirement purposes is the same in 1993-1994 as it was in 1992-1993.

Changes in reporting dates

Dates for submitting the Final Budget Form (FP-1E/H/K) and Trustees' Financial Summary (FP-3) have been changed:

Trustees submit Trustees' Financial Summary to the county superintendent — August 15. (Joint district reports due by Sept. 1)

Final budget adopted by trustees — 2nd Monday in August. (May extend no later than the 4th Monday in August).

Levy requirements reported to county commissioners by county superintendent — 4th Monday in August.

Levies fixed by county commissioners — 4th Monday in August.

County superintendent sends the Trustees' Financial Summary to OPI — 2nd Monday in September.

No "deconsolidation" allowed

A school district may not initiate the creation of a new elementary or high school district after July 1, 1993. Districts may consolidate, annex territory or form K-12 districts, but districts may not "de-consolidate."

OFFICE OF PUBLIC INSTRUCTION
PUBLIC SCHOOL FUNDING GLOSSARY

ANB (Average Number Belonging) - A student count for each school district that is used for school funding purposes. For the 1993-1994 school year, ANB is calculated using the October 1, 1992 enrollment count and approved PIR days. Pre-kindergarten and full-time special education students are not included in the ANB calculation and kindergarten students are included in the calculation as one-half.

BASE - Acronym for Base Amount for School Equity.

BASE Budget- Minimum budget of a district equal to 80% of the district's basic entitlement, 80% of the district's per-ANB entitlement, up to 140% of the district's special education allowable cost payment, and up to 40% of the district's prorated special education cooperative costs.

BASE Budget Levy - District levy in support of the BASE budget. This levy may be supported with GTB aid if the district's GTB ratio is less than the statewide GTB ratio.

Basic Entitlement - Minimum amount each School District will receive if in operation; $18,000 for elementary districts and $200,000 for high school districts. Elementary schools having both a K-6 and accredited 7th-8th grade program receive a prorated basic entitlement.

Direct State Aid - Public school equalization aid paid to each district. The amount paid is equal to 40% of the district's basic and per-ANB entitlements.

District GTB Ratio - The taxable valuation in the previous year of all property in the district divided by the sum of the district's current year direct state aid, 40% of the district's special education allowable cost payment and 40% of its prorated special education cooperative costs.

District Mill Value per ANB - The taxable valuation in the previous year of all property in the district divided by 1,000, with the quotient divided by the ANB count of the district used to calculate the district's current year total per-ANB entitlement.

GTB (Guaranteed Tax Base) Aid - Public school equalization aid provided to subsidize general fund levies in school districts with a GTB ratio less than the statewide GTB ratio. GTB aid is also provided to subsidize county retirement levies in counties with a county mill value less than the statewide mill value and to reimburse eligible districts for mills levied in the debt service fund.

GTB Budget Area - The portion of a district's general fund budget below its BASE budget and above its direct state aid plus special education allowable cost payment. Within the GTB budget area, guaranteed tax base aid is provided to subsidize mills levied by GTB eligible districts.

Maximum General Fund Budget - Sum of the district's basic entitlement, per-ANB entitlement, up to 153% of its special education allowable cost payments and up to 53% of the district's prorated special education cooperative costs.

Non-Levy Revenue - Revenue available to a district from sources other than property taxes. Non-levy revenue includes motor vehicle fees, recreational vehicle fees, out-of-state equipment fees, local government severance taxes and net proceeds taxes paid on oil and gas production, coal gross proceeds taxes, personal property tax reimbursements, corporation license taxes paid by financial institutions, state impact aid, tuition, investment earnings and any other revenue received during the school fiscal year that may be used to finance the general fund, excluding any guaranteed tax base aid.

Per-ANB Entitlement - Amount of general fund budget authority each school district receives per ANB. Each elementary ANB generates $3,300-3,500 of budget authority depending on the size of the district. Each high school ANB generates $4,500-4,900 of budget authority again depending on the size of the district. The per-ANB entitlement for 7th-8th grade student in an accredited 7th-8th grade, middle school, or junior high program is computed at the high school rates.

PI (Pupil Instruction) Days - Days when school districts provide organized instruction for pupils enrolled in public schools while under the supervision of a teacher. 180 PI days are required to meet the accreditation standards. No more than 180 PI days may be used for calculation of ANB.

PIR (Pupil Instruction Related) Days - Days of teacher activities, approved by the Office of Public Instruction, which are devoted to improving the quality of instruction. PIR days may not exceed 7 days for the calculation of ANB.

Prorated Special Education Cooperative Costs - The district's share of the special education allowable cost payment paid directly to the cooperative in which the district participates. The total payment made to the cooperative is prorated to participating districts for budgeting purposes only.

Special Education Allowable Cost Payment - The amount of the state special education appropriation distributed to each district for its special education program, which is based on special education instructional costs, as defined in statute.

Statewide GTB Ratios -

Statewide elementary GTB ratio is the sum of the taxable valuation in the previous year of all property in the state, multiplied by 175%, and divided by the sum of the elementary districts' direct state aid. 40% of elementary districts' special education allowable cost payments and 40% of elementary districts' prorated special education cooperative costs.

Statewide high school GTB ratio is the sum of the taxable valuation in the previous year of all property in the state, multiplied by 175%, and divided by the sum of the high school districts' direct state aid. 40% of high school districts' special education allowable cost payments and 40% of high school districts' prorated special education cooperative costs.

Statewide Mill Value-

Statewide mill value per elementary ANB is the sum of the taxable valuation in the previous year of all property in the state, multiplied by 121% and divided by 1,000, with the quotient divided by the total elementary ANB count used to calculate the elementary school districts' current year total per-ANB entitlement amounts.

Statewide mill value per high school ANB is the sum of the taxable valuation in the previous year of all property in the state, multiplied by 121% and divided by 1,000, with the quotient divided by the total high school ANB count used to calculate the high school districts' current year total per-ANB entitlement amounts.

HB 667

I. Building Your District's MGFB (Maximum General Fund Budget)

Local Revenue

20% x Basic Entitlement

20% x Per ANB Entitlement

Up to 13% x Special Education Allowable Cost Funding

Local Revenue + GTB

40% x Basic Entitlement

40% x Per ANB Entitlement

Up to 40% x Special Education Allowable Cost Funding (optional)

Direct State Aid

40% x Basic Entitlement

40% x Per ANB Entitlement

100% x Special Education Allowable Cost Funding

- **MGFB** (100% Basic + ANB Entitlements + Special Ed.)

- **BASE** (80% Basic Entitlement and ANB Entitlement plus up to 140% Special Ed. Allowable Cost Funding (including prorated coop. costs)

Basic Entitlement

High School = $200,000
Elementary District
w/o Junior High or approved 7 and 8 = $18,000
w/Junior High or approved 7 and 8 = $(18{,}000 \times \frac{\text{K-6 ANB}}{\text{K-8 ANB}}) + (200{,}000 \times \frac{\text{7-8 ANB}}{\text{K-8 ANB}})$

(40% Basic Entitlement and ANB Entitlement plus 100% Special Education Allowable Cost Funding)

Per ANB Entitlement

Elementary District with less than 1000 ANB
$3,500 less .20 per additional student, or 3,500 x ANB - $(.20 \times \lfloor \frac{\text{ANB} \times (\text{ANB} - 1)}{2} \rfloor)$

Elementary District with greater than 1000 ANB
Same as above with stop loss at 1000, or
$\$3{,}400{,}100 + (\$3{,}300.20 \times \lfloor \text{ANB} - 1{,}000 \rfloor)$

High School District with less than 800 ANB
$4,900 less .50 per additional student, or
$4{,}900 \times \text{ANB} - (.50 \times \lfloor \frac{\text{ANB} \times (\text{ANB} - 1)}{2} \rfloor)$

High School District with more than 800 ANB
Same as above with stop loss at 800, or
$\$3{,}760{,}200 + (\$4{,}500.50 \times \lfloor \text{ANB} - 800 \rfloor)$

II. Determine your budget authority: 1992-1993 General Fund Budget Relationship to you MGFB.

Compare FY 1992-1993 GF Budget less actual FY93 P.L. 81-874 Receipts to the Base and MGFB

III. Determine your 1993-1994 general fund budget cap:

A. Districts Below Base Budget Authority

May Adopted Greater of:

104% of 92-93 GF Budget
104% of 92-93 GF Budget per ANB x Current ANB

Must grow at least:

20% of Range between FY 1992-1993 Budget and the BASE

B. Districts Between Base and Max Budget Authority Range

104% of 92-93 GF Budget, or
104% of 92-93 Budget per ANB x Current ANB

C. District Above Maximum
No Increase Allowed

1993 LEGISLATIVE REVIEW

Presented by

BRUCE MOERER
MSBA General Counsel

NEW SCHOOL FUNDING LAW (HB 667) PASSES - NO VOTED LEVIES FOR 93-94

In its final hours, the 1993 Legislature passed HB 667 revising Montana's public school finance laws. The bill is effective July 1, 1993. Schools preserved an extra $11 million out of a projected cut of $40 million in state funding for schools. Although a $29 million cut is not good, it could have been much worse. In addition, the bill is expected to end the equalization lawsuits, and modifies the debt service fund so school bonds can be sold.

The two most significant changes in school funding are the equalization aspects of the formula setting maximum budgets, and being able to allow for 4% inflationary growth in budgets (up to the maximum) with permissive levies. In fact, the new law does not allow for any voted levies for the budget for the 1993-94 school year, only the permissive levies. The main reason for this is there is not enough time to vote on levies before budgets need to be set, even if everyone completely understands the bill in time. After 1993-94, schools can exceed 4% growth with a voted levy (up to the maximum). Schools no longer have to put part of their current level budget up for voter approval.

The first thing people must do is forget about state funding being based on ANB or the foundation schedule and remember that the new formula merely sets a maximum budget for each school district. To equalize per pupil expenditures, districts are required to set a budget of at least 80% of the maximum, which is the base budget. Schools currently under the base budget are required to phase up to the base budget in a minimum of 5 years. They may increase their budget by 4% (or 4% per pupil times the new ANB amount) of the prior general fund budget if that is greater. They may go all the way to the base budget level with voter approval after the first year. There is no authorization for a voted levy the first year. Districts at or over the base budget level may increase their budget up to 4% (or 4% per pupil times the new ANB amount) of the prior general fund budget with a permissive levy, as long as they do not exceed the maximum budget. After the first year, schools can go all the way to the maximum budget with a voted levy, but there is no authorization for a voted levy for next year's budget. Districts above the maximum budget are frozen. They can levy up to the frozen amount permissively for the first two years. After that, they must vote the amount above the maximum that it takes to reach their frozen budget level.

The maximum budget is calculated according to a formula consisting of three parts. The first is the basic entitlement. This is $200,000 for a high school district, and $18,000 for an elementary district. Elementary districts with approved middle school or junior high school programs receive a prorated high school base amount for these students. For example, if 2/3 of the students are K-6th grade and 1/3 are 7th and 8th grade, the elementary district would receive a basic entitlement of 2/3 of $18,000 plus 1/3 of $200,000. The second part is the per-ANB entitlement. For high schools, this will be a maximum rate of $4,900 for the first ANB, decreased at the rate of 50¢ per ANB for each additional ANB up through 800 ANB (what is called the high school stop-loss), with each ANB in excess of 800 receiving the same amount as the 800th ANB. For elementary districts, the maximum rate is $3,500 for the first ANB, decreased at the rate of 20¢ per ANB for each additional ANB through 1,000 ANB (the elementary stop-loss), with each ANB in excess of 1,000 receiving the same as the 1,000th ANB. Elementary districts receive a pro-rated per-ANB entitlement for approved junior high and middle school students. They would receive the elementary per-ANB entitlement for their K-6th grade students (starting at the $3,500 maximum rate), and the high school per-ANB entitlement for their 7th and 8th grade students (starting at the

$4,900 maximum rate). The third part of the maximum budget is the special education allowable costs plus 53% of these costs.

The formula for computing the total per-ANB entitlement is PSA x ANB - [RF x (ANB/2) x (ANB -1)] for up to 800 high school and 1,000 elementary ANB. PSA is the maximum ANB entitlement and RF is the reduction factor. Districts that exceed 800 high school and 1,000 elementary ANB must add the ANB in excess of that multiplied by $4,500 in high school and $3,300 in elementary districts.

Revenue for the budget will be direct state aid for the first 40% of the maximum budget; non-levy revenues, district permissive levies, and weighted GTB subsidy for the second 40% of the maximum budget; unsubsidized levies and non-levy revenue for the last 20% of the maximum budget; and unsubsidized levies and non-levy revenue for any districts over the maximum that are frozen. Non-levy revenue must first be used in the second 40% of the budget, similar to the current permissive area.

ANB is changed to an average of the enrollment count on the first Mondays in October and February, multiplied by 187 and divided by 180. For next year's budget only, the October enrollment count will be used.

The GTB subsidy for the general fund is now weighted based on a ratio of the district's taxable value compared to 40% of their revenue that is eligible for GTB subsidy. Before, it was based on the number of students, not budget needs. GTB subsidy for retirement and debt service funds will not be weighted.

Isolated schools (those more than 20 miles from the city limits, or in unincorporated areas more than 20 miles from another school of the district) will receive budget authority as if they were a separate district.

HB 667 was coordinated with the new special education funding system by adding special education allowable costs plus 53% of these costs onto the maximum budget and by making 40% of special education allowable costs eligible for weighted GTB subsidy. For 1994-95, special education ANB (over half-time) will be added into the ANB count increasing the maximum budgets.

The capital outlay provisions were added to HB667 after SB32 became stalled in conference committee. The new concept will apply GTB subsidy (not weighted) for 1993-95 to bonds issued after July 1, 1991, and after July 1, 1995 all debt service levies will receive GTB subsidy. The amount of the subsidy will be based on a formula using average square footage costs per student based on a 50 year life span of a school building

PL 81-874 money will be placed in a separate fund. Detailed information will need to be made available to 874 districts at a later date.

The biggest philosophical difference facing trustees under the new law will be the lack of voted levies necessary if they keep their new budgets at a 4% increase or less. There will be pressure from unions for at least a 4% increase for additional wages and benefits, and pressure from parents and students for new or improved programs, countered by pressure from taxpayers for lower levies. Trustees will now have to balance these additional demands instead of letting the voters decide. The voters will make their decision when trustees are elected.

Budgets for the 1993-94 school year will be limited to a maximum growth rate of 4% (or 4% per ANB) of the prior general fund budget with no voted levy possible. Before budgets can be set, mill levies will have to be estimated.

The following chart depicts the new funding system:

REVENUE	BUDGET	CAPS
		Frozen
		No vote for FY 94 and 95
Unsubsidized levy Non-levy revenue	Over maximum budget	Voted above maximum for FY 96 on.
	100% Maximum budget	Budget growth limited to: ✓ 4% of prior GF budget. ✓ 4% of prior GF budget per ANB multiplied by new ANB Vote required to exceed 4% growth
Unsubsidized levy Non-levy revenue		
	80% Base budget	
Permissive Levy Non-levy revenue, weighted GTB subsidy	Maximum budget equals sum of 1 through 3:	Must phase up to budget within 5 years by adding to current budget: 1/5 of difference between current and base budget in first year, 1/4 of difference between current and base budget in second year, 1/3 of difference between current and base budget in third year, 1/2 of difference between current and base budget in fourth year, go to base budget in fifth year,
	1) Basic Entitlement $200,000 high school $18,000 elementary, prorated for middle school and junior high	
	2) Per-ANB Entitlement	
Direct state aid payment	40% $4,900 - 50c/ANB up to 800 H.S ANB $3,500 - 20c/ANB up to 1,000 ele. ANB $4,900 - 50c/ANB up to 800 for middle school and junior high	or 4% of prior general fund budget, or
	3) Special Education Special education allowable costs plus 53% of special education allowable costs	4% of prior general fund budget per-ANB multiplied by new ANB

IMPACT OF

TAX CAP

Capping Market Values and Tax Shifting

Proposals that include a mechanism for capping the increases in market value provide direct relief to those owners of properties whose values are rapidly increasing. However, as the old saying goes "there is no free lunch". If government service and budget requirements do not decrease, or, more likely, continue to increase, the reduction in tax bills of owners of properties whose values are capped must be shifted elsewhere. This section discusses three possible outcomes of how taxes may be shifted within a taxing jurisdiction if a proposal to cap market values is implemented.

Measuring Property Tax Burdens

In this analysis we will measure the burden of property taxation, which is a tax on wealth, in the traditional manner; that is, tax liability expressed as a percentage of *true market value*. Recall that property tax liability in Montana is calculated first by applying the taxable valuation rate to the market value of the property, then by applying the total number of mills levied for all purposes against the taxable value. The resulting tax liability expressed as a percentage of market value, the effective tax rate, represents the burden borne by that piece of property. Using the statewide average of 365 mills on residential property, the effective tax rate on a $60,000 home is calculated as follows:

Market Value	$ 60,000
Taxable Valuation Rate	3.86%
Taxable Value	$ 2,316
Mill Levy	.365
Tax Liability	$ 845.34
Effective Tax Rate: ($845.34 / $60,000)	1.41 %

Note that ***when true market value is the basis from which the calculations begin*** the effective tax rate may also be expressed as the product of the taxable valuation rate and the mill levy:

3.86% X .365 = 1.41%

Having an understanding of how tax liability is calculated, and how tax burdens are measured, we can now proceed to examine how capping the growth in market values produces shifts in tax burdens amoung property owners. We will examine the impacts of caps on three hypothetical homeowners, under three different assumptions of how their individual market values change from a base year to the following tax year. Attachments provide the details of the tax calculations for each of three cases. For simplicity, it is assumed that in the base year each property has the same market value of $60,000 and that each property owner faces the same mill levy.

Case 1 - All Properties Appreciate at the Same Rate of 20%

In Case 1, each homeowner's value grows at the same 20 percent rate of appreciation. When no caps are applied the market value for tax purposes increases from $60,000 to $72,000 for each home, and the tax liability increases from $97.27 to $174.37 for each home. This represents a 79.26 percent increase; which consists of the 49.38 percent increase in the mill levy coupled with the 20 percent increase in the value of the property. The effective tax rate increases by 49.38 percent reflecting only the percentage change in the mill levy; the taxable valuation rate does not change.

TABLE 1

Case 1 - All Properties Appreciate at Same Rate of 20%

Base Year Data	Home "A"	Home "B"	Home "C"
Market Value	$60,000	$60,000	$60,000
Taxable Value	$2,316	$2,316	$2,316
Mill Levy	42.00	42.00	42.00
Tax Liability	$97.27	$97.27	$97.27
Effective Rate	0.162%	0.162%	0.162%

No Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
Market Value	$72,000	$72,000	$72,000
Taxable Value	$2,779	$2,779	$2,779
Mill Levy	62.74	62.74	62.74
Tax Liability	$174.37	$174.37	$174.37
Effective Rate	0.242%	0.242%	0.242%
% Inc. in Tax	79.26%	79.26%	79.26%
% Inc. in ETR	49.38%	49.38%	49.38%

When a 2 percent growth cap is applied, the true market value continues to increase to $72,000 but the market value for tax purposes increases to only $61,200. This reduces the taxable valuation from $2,779 to $2,362 on each home. However, because the revenue requirement of the taxing jurisdiction levying mills against these properties remains the same, the number of mills needed to levy the same amount of revenue must increase from 62.74 to 73.81 mills for each home. Consequently, not only does each home continue to pay the same amount of tax as every other home, but the new tax is the same as if no cap had been implemented. Percentage increases in the tax and in the effective rate remain the same as if no cap had been applied.

TABLE 2

With 2% Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
True Market Value	$72,000	$72,000	$72,000
Tax Market Value	$61,200	$61,200	$61,200
Taxable Value	$2,362	$2,362	$2,362
Mill Levy	73.81	73.81	73.81
Tax Liability	$174.36	$174.36	$174.36
Effective Rate	0.242%	0.242%	0.242%
% Inc. in Tax	79.25%	79.25%	79.25%
% Inc. in ETR	49.38%	49.38%	49.38%

When all properties appreciate at the same exact rate, each property's liability also increases at the same exact rate, and there is no shifting of tax liability between homeowners. While this situation certainly can occur, a more likely scenario is that property values are all appreciating but at different rates, or some property values are appreciating while others are depreciating or staying the same.

Case 2 - All Properties Appreciate at Varying Rates Above 2 Percent

In Case 2, home "A" appreciates by 30 percent; home "B" appreciates by 20 percent; and home "C" appreciates by 10 percent.

When no cap is applied, the market value for tax purposes reflects the true market value of each property of $78,000; $72,000; and $66,000; respectively. Because the taxable valuation rate remains constant at 3.86 percent for each home, the taxable value for each home rises commensurate with the increase in market value. That is, taxable value rises by 30 percent for home "A", 20 percent for home "B", and 10 percent for home "C". Similarly, because the mill levy applied is the same for each home the increase in tax liability also rises commensurate with the percentage increase in market value. Tax liability for home "A" rises by 94.2 percent; reflecting the 49.38 percent increase in the mill levy coupled with a 30 percent increase in market value; tax liability for home "B" rises by 79.26 percent; reflecting the 49.38 percent increase in the mill levy coupled with a 20 percent increase in market value; and tax liability for home "C" rises by 64.32 percent; reflecting the 49.38 percent increase in the mill levy coupled with a 10 percent increase in market value. Again, the effective tax rate for each property remains the same, and rises by 49.38 percent, reflecting only the increase in the mill levy, as the taxable valuation rate remains constant at 3.86 percent for each property. Because tax liabilities change commensurate with the change in value no shift in burden occurs.

TABLE 3

Case 2 - Properties Appreciate at Varying Rates Above 2 Percent

Base Year Data	Home "A"	Home "B"	Home "C"
Market Value	$60,000	$60,000	$60,000
Taxable Value	$2,316	$2,316	$2,316
Mill Levy	42.00	42.00	42.00
Tax Liability	$97.27	$97.27	$97.27
Effective Rate	0.162%	0.162%	0.162%

No Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
Market Value	$78,000	$72,000	$66,000
Taxable Value	$3,011	$2,779	$2,548
Mill Levy	62.74	62.74	62.74
Tax Liability	$188.90	$174.37	$159.84
Effective Rate	0.242%	0.242%	0.242%
% Inc. in Tax	94.20%	79.26%	64.32%
% Inc. in ETR	49.38%	49.38%	49.38%

Table 4 shows that when a 2 percent cap is applied the market value for tax purposes increases to $61,200 for each property although the true market value continues to be at $78,000 for home "A", $72,000 for home "B", and $66,000 for home "C". Recall it is this true market value against which tax burden is measured.

Because the new market value for each home is the same under the cap, the taxable values and tax liabilities for each home must also be the same. In this instance mill levies rise to 73.81 mills to provide the same revenue flow to the taxing jurisdiction, resulting in a tax liability of $174.36 for each homeowner. Now, however, each homeowner will have a different effective tax rate because while tax liability is the same for each the true market value of each property is different. Relative to the situation in which no cap was applied, the tax burden for homeowner "A" is reduced from 0.242 percent to 0.224 percent; the burden for homeowner "B" remains the same; while the burden for homeowner "C" increases from 0.242 percent to 0.264 percent. This results in an increase in the effective tax rate for homeowner "A" of 37.89 percent while the burden for homeowner "C" is increased by 62.96 prercent. In other words, there has been a significant shift in burden from homeowner "A" to homeowner "C", even though each homeowner experienced the same percentage increase in tax liability.

TABLE 4

With 2% Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
True Market Value	$78,000	$72,000	$66,000
Tax Market Value	$61,200	$61,200	$61,200
Taxable Value	$2,362	$2,362	$2,362
Mill Levy	73.81	73.81	73.81
Tax Liability	$174.36	$174.36	$174.36
Effective Rate	0.224%	0.242%	0.264%
% Inc. in Tax	79.25%	79.25%	79.25%
% Inc. in ETR	37.89%	49.38%	62.96%

In situations where property values are increasing at varying rates above the cap limit, property tax burdens are shifted from property owners whose values are increasing faster to property owners whose values are increasing slower.

Case 3 - Property "A" Appreciates, Property "B" Stays Constant, Property "C" Depreciates

In the final case, the value of home "A" appreciates by 20 percent, there is no change in the value of home "B", and home "C" depreciates by 20 percent.

When no caps are applied, market values for tax purposes continue to reflect true market values. Taxable values and tax liabilities change for each property directly in response to percentage changes in market values and mill levies. Thus, the tax rate for home "A" increases by 79.26 percent, which consists of the 49.38 percent increase in the mill levy coupled with a 20 percent increase in valuation; the tax rate for home "B" increases by 49.38 percent, which consists solely of the 49.38 percent increase in the mill levy; and the tax rate for home "C" increases by 19.50 percent, which consists of the 49.38 percent *increase* in the mill levy coupled with a 20 percent *decrease* in valuation. Each homeowner's tax burden is equal at 0.242 percent, indicating there is no shift in the tax burden, even though each homeowner's percentage increase in actual tax liability is different reflecting different new market values of their property.

TABLE 5

Case 3 - Property "A" Appreciates, Property "B" Stays Constant, and Property "C" Depreciates

Base Year Data	Home "A"	Home "B"	Home "C"
Market Value	$60,000	$60,000	$60,000
Taxable Value	$2,316	$2,316	$2,316
Mill Levy	42.00	42.00	42.00
Tax Liability	$97.27	$97.27	$97.27
Effective Rate	0.162%	0.162%	0.162%

No Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
Market Value	$72,000	$60,000	$48,000
Taxable Value	$2,779	$2,316	$1,853
Mill Levy	62.74	62.74	62.74
Tax Liability	$174.37	$145.31	$116.24
Effective Rate	0.242%	0.242%	0.242%
% Inc. in Tax	79.26%	49.38%	19.50%
% Inc. in ETR	49.38%	49.38%	49.38%

In Table 6 we assume, as in the California system, that all propety values will increase by 2 percent regardless of the change in true market value of the property. Once again, the market value of all three homes for tax purposes increases to $61,200. After the necessary adjustment to the mill levy, this results in a tax liability of $145.31 for each homeowner. Consequently, each homeowner experiences the same 49.38 percent increase in tax liability. However, under the capping system there is a significant shifting in the tax burden paid by each homeowner.

For home "A", the new liability of $145.31 is 0.202 percent of its true market value of $72,000; which represents an increase of 24.48 percent in the tax burden on that home. For home "B", the new liability of $145.31 is 0.242 percent of its true market value of $60,000; which represents an increase of 49.38 percent in the tax burden on that home. Finally, for home "C", the new liability of $145.31 is 0.303 percent of its true market value of $48,000; which represents an increase of 86.73 percent in the tax burden on that home. Whereas in the base year, and in the new year when no caps are applied, the burden is equal for all properties, under the system of capping the tax burden on home "C" is 50 percent higher than the burden on home "A". This representas a very significant shift in burden away from properties whose values are increasing to properties whose values are decreasing.

TABLE 6

With 2% Cap on Valuation Increases

	Home "A"	Home "B"	Home "C"
True Market Value	$72,000	$60,000	$48,000
Tax Market Value	$61,200	$61,200	$61,200
Taxable Value	$2,362	$2,362	$2,362
Mill Levy	61.51	61.51	61.51
Tax Liability	$145.31	$145.31	$145.31
Effective Rate	0.202%	0.242%	0.303%
% Inc. in Tax	49.38%	49.38%	49.38%
% Inc. in ETR	24.48%	49.38%	86.73%

In situations where property values are both increasing and decreasing, implementing caps on market value shifts burdens away from property owners whose values are increasing to property owners whose values are decreasing.

CALIFORNIA

PROPOSITION 13

CALIFORNIA'S PROPOSITION 13 - WHAT DID IT DO?

California's constitutional amendment known as Proposition 13 was approved by the electorate in June, 1978. Major features of the proposition include the following:

Property Tax - Valuation and Tax Rates

1. Property values were rolled back to their 1975-76 market values.

2. Property taxes were limited to 1% of market value. (Local jurisdictions were also allowed to include a premium necessary to pay for any *voter-approved* debt in existence at the time of approval. Initially, it was estimated that including this premium resulted in a tax rate closer to 1.25 percent, statewide. As voter-approved debt in existence at the time of approval is paid off, the tax rate will approach 1 percent.)

3. In each year thereafter, the market values of properties have been allowed to rise by the percentage increase in the California CPI, or 2%, whichever is smaller.

4. Properties that are sold, traded, or newly constructed after 1975-76 are reassessed at current market values. Properties traded or newly constructed would have to be appraised by the local appraiser to determine market value. However, for properties sold in an arm's-length transaction, the market value is the selling price of the property. The newly established market values would then begin to grow by the smaller of 2% or the percentage increase in the California CPI each year thereafter.

5. Reassessment is also permitted whenever a property is improved. In these cases, the improvements to the property must be valued at the current market value, while the remainder of the property retains its previous value based on the original market value as adjusted by the inflationary impacts discussed above.

6. Proposition 8, approved subsequent to Proposition 13, provides for decreases in the market value of a property. Property holders may petition to have their property values decreased based on unusual market or other conditions (natural disasters, blighted areas, fire or other natural disaster damage, etc.).

Other Features

1. Proposition 13 also forbade implementation of any *statewide* property tax levies.

2. In addition, Proposition 13 requires a two-thirds vote of the state legislature to increase existing or adopt new state taxes; and requires a two-thirds vote of the electorate to increase local taxes.

County	Tax Year 86 Taxable Value	Estimated Tax Year 1993 Taxable Value			Annual % Change From 1986	
		Current Law (Reappraisal)	Under Prop13	Difference	Current Law (Reappraisal)	Under Prop13
(Taxpayers in These Counties Would Have Benefitted Under Proposition 13)						
Beaverhead	3,851,527	5,240,264	5,204,023	(36,241)	4.5%	4.4%
Flathead	42,415,522	66,366,559	59,396,205	(6,970,354)	6.6%	4.9%
Gallatin	26,350,587	47,316,962	40,804,979	(6,511,984)	8.7%	6.4%
Granite	1,491,719	2,087,501	2,040,697	(46,804)	4.9%	4.6%
Jefferson	3,989,071	5,874,846	5,837,739	(37,107)	5.7%	5.6%
Lake	18,052,756	24,955,046	22,164,513	(2,790,533)	4.7%	3.0%
Mineral	1,480,818	1,958,025	1,865,271	(92,754)	4.1%	3.4%
Missoula	47,013,829	58,474,326	58,383,033	(91,293)	3.2%	3.1%
Silver Bow	15,011,560	20,161,853	18,337,153	(1,824,700)	4.3%	2.9%
(Taxpayers in These Counties Would NOT Have Benefitted Under Proposition 13)						
Big Horn	3,969,232	3,068,775	4,546,447	1,477,672	-3.6%	2.0%
Blaine	2,219,011	2,250,181	2,578,255	328,074	0.2%	2.2%
Broadwater	2,046,491	1,903,520	2,459,488	555,968	-1.0%	2.7%
Carbon	6,963,569	7,402,105	8,343,471	941,366	0.9%	2.6%
Carter	760,486	598,351	916,448	318,097	-3.4%	2.7%
Cascade	39,716,344	50,506,496	50,612,417	105,920	3.5%	3.5%
Chouteau	3,643,191	3,213,372	4,355,644	1,142,272	-1.8%	2.6%
Custer	5,878,538	5,420,080	6,854,486	1,434,406	-1.2%	2.2%
Daniels	1,592,766	1,122,853	1,828,168	705,315	-4.9%	2.0%
Dawson	6,334,581	4,239,876	7,094,293	2,854,417	-5.6%	1.6%
Deer Lodge	4,644,332	4,585,291	5,347,682	762,391	-0.2%	2.0%
Fallon	1,924,311	1,417,470	2,206,892	789,422	-4.3%	2.0%
Fergus	5,232,732	5,366,817	6,385,146	1,018,329	0.4%	2.9%
Garfield	857,828	648,035	984,253	336,217	-3.9%	2.0%
Glacier	3,386,637	3,317,575	4,085,817	768,242	-0.3%	2.7%
Golden Valle	573,848	545,250	691,668	146,419	-0.7%	2.7%
Hill	8,619,630	9,124,571	10,201,755	1,077,185	0.8%	2.4%
Judith Basin	1,358,235	1,248,055	1,648,972	400,917	-1.2%	2.8%
Lewis & Clar	29,129,045	35,689,000	36,193,245	504,245	2.9%	3.2%
Liberty	1,579,339	1,329,897	1,986,559	656,662	-2.4%	3.3%
Lincoln	10,119,290	11,309,117	12,600,032	1,290,916	1.6%	3.2%
Madison	4,368,501	7,623,733	7,804,462	180,729	8.3%	8.6%
McCone	1,770,049	1,278,578	2,028,896	750,318	-4.5%	2.0%
Meagher	1,090,041	1,317,187	1,406,873	89,686	2.7%	3.7%
Musselshell	2,281,768	1,888,900	2,719,171	830,271	-2.7%	2.5%
Park	8,863,240	10,865,288	12,101,738	1,236,449	3.0%	4.5%
Petroleum	239,431	240,574	316,125	75,550	0.1%	4.0%
Phillips	2,780,695	2,438,031	3,264,805	826,775	-1.9%	2.3%
Pondera	3,224,220	2,892,272	3,808,943	916,670	-1.5%	2.4%
Powder River	1,330,467	979,674	1,592,670	612,996	-4.3%	2.6%
Powell	2,876,173	3,307,809	3,427,115	119,305	2.0%	2.5%
Prairie	767,148	540,046	907,037	366,991	-4.9%	2.4%
Ravalli	16,222,961	22,102,024	22,377,397	275,374	4.5%	4.7%
Richland	6,431,059	5,196,824	7,309,571	2,112,747	-3.0%	1.8%
Roosevelt	3,530,775	2,846,579	4,043,006	1,196,428	-3.0%	2.0%
Rosebud	3,966,145	3,083,700	4,597,478	1,513,778	-3.5%	2.1%
Sanders	4,371,304	5,363,756	5,552,334	188,579	3.0%	3.5%
Sheridan	2,939,329	2,225,514	3,397,713	1,172,199	-3.9%	2.1%
Stillwater	4,568,157	5,200,917	5,907,540	706,622	1.9%	3.7%
Sweet Grass	2,344,072	2,010,903	2,857,244	846,341	-2.2%	2.9%
Teton	3,618,778	3,201,894	4,350,059	1,148,165	-1.7%	2.7%
Toole	2,939,996	2,734,678	3,456,983	722,305	-1.0%	2.3%
Treasure	371,667	329,574	474,916	145,342	-1.7%	3.6%
Valley	4,713,181	4,211,111	5,628,061	1,416,950	-1.6%	2.6%
Wheatland	908,860	916,634	1,152,840	236,206	0.1%	3.5%
Wibaux	694,755	527,926	794,819	266,893	-3.8%	1.9%
Yellowstone	87,201,764	88,246,665	102,775,855	14,529,190	0.2%	2.4%
STATEWIDE	474,621,361	568,312,858	600,008,403	31,695,545	2.6%	3.4%

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